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ABSTRACT

This report presents an analysis of Illinois' present educational finance system and makes recommendations for future legislation to improve the system. The report discusses (1) State constitutional provisions, (2) the present tax structure and alternative taxing methods, (3) proposed distribution formulas and equalization methods, (4) financing the education of the disadvantaged, (5) financing school construction, (6) financing special education, (7) financing pupil transportation, and (8) financing compensation. (Pages 2, 37, and 63 may reproduce poorly.) (JF)

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A NEW DESIGN:
FINANCING FOR EFFECTIVE EDUCATION IN ILLINOIS

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Final Report
of the
Finance Task Force

Governor's Commission on Schools

DECEMBER, 1972

EA 005 224

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December, 1972

Honorable Richard B. Ogilvie
Governor of Illinois

Dear Governor Ogilvie:

It is our honor to submit to you the Final Report of the Finance Task Force of the Governor's Commission on Schools.

Since March the Task Force has convened monthly and our component committees have met with even greater frequency. Our deliberations have benefitted from the extensive work of a full-time staff, from school finance reports prepared for the President and for the governors and legislatures in other states, and from assistance provided by the Bureau of the Budget, Office of Planning and Analysis, Office of the Superintendent of Public Instruction, and other interested organizations. This report is necessarily only a distillation of our lengthy proceedings.

We have found school finance to be a complex puzzle. Questions of government taxation and expenditure, educational quality and equality, and school organization and administration are but a few of the intricately interlocked pieces. After examining each aspect of the puzzle, we have reshaped and joined them together in a "new design" for the financing of public schools in Illinois.

Readers of this report will find its proposals to be radical in two important respects. First, our specific conclusions and recommendations comprise a significant departure from the state's current system for financing its schools. Second, contrary to the position taken in other states and implicit in recent court decisions, we do not recommend

immediate, massive increases in state spending for the common schools. Instead, our proposals direct scarce public resources for those purposes which, in our judgment, would best result in a more effective education for the children of Illinois.

Our proposals constitute a plan. No plan should be final and unchanging. Consequently, in addition to our suggestions for immediate action, we also recommend directions for future analysis and review of actions taken as a result of this report.

We have enjoyed the opportunity to participate in this effort to improve the state's system of financing its schools.

Troy Y. Murray, Staff Director

John W. McCarter, Jr., Chairman

Finance Task Force
Governor's Commission on Schools

EXECUTIVE ORDER

WHEREAS:

The financing of the schools has become the pivotal question around which the future of state-local taxation hinges for the next several years. The traditional reliance on the local property tax has been shifting in recent years. Recent developments in the courts have accelerated the necessity of moving toward change in property tax burdens, equalization of school funding, and the consequent increase in sharing of the cost of education by other tax sources.

The public has become troubled at the inability to accurately assess the performance of our schools and the seeming unresponsiveness of educators to standards of accountability. Moreover, when evaluations are made, they seem to lead to a discouraging conclusion of lower learning levels in basic reading and mathematics, increased drop-outs and a general deterioration of academic achievements.

The business practices of a multi-billion dollar enterprise in this state are archaic, fragmented and in need of modern management principles. Reports of instances of gross mismanagement are too frequent. At a time of severe shortage of public funds for education, the record of performance for those dollars is unsatisfactory. The portion of the education dollar used for nonteaching purposes is too great.

The organization of education in Illinois is confused and unnecessarily complex. Each new layer has been added to the past rather than replacing others. The new Constitution calls for a State Board of Education and new tasks for the Chief School Officer. The historic changes of the 40's and 50's in consolidation and the dual districts differential funding may have served as innovative reforms at that time, but today serious reevaluations must be made about the needs of the 70's and 80's. A new definition and structuring of the balance between state authority and local

control must be achieved in terms of principle as well as in specific instances or events.

NOW THEREFORE:

By virtue of powers vested in me as Governor of the State of Illinois, I do issue this Executive Order creating a Commission on Schools to examine and review the operations and financing of our schools and educational system.

The Commission shall operate through four working Task Forces:

- Finance
- Organization and Structure
- Classroom Quality
- Business Management Practices

The Governor of the State of Illinois shall serve as Chairman of the Commission and the Superintendent of Public Instruction of the State of Illinois shall serve as Vice Chairman. The Governor shall appoint the Chairman of each Task Force who will be full members of the Commission along with such other legislative and citizen members as the Governor may designate.

Dated at Springfield, Illinois this 12th day of January, 1972.

Richard B. Ogilvie, Governor

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A New Design:

Scope

ISSUES UNDERLYING THE REFORM OF SCHOOL FINANCE

Any attempt to rationalize the organization, administration, and financing of a State and local public service system faces the fundamental obstacle erected by this nation's history of an uneasy balance between centralization and decentralization of government. Local government, for example, seeks to retain a tradition characterized by local direction and control, as well as by an individual's freedom to choose selected public services. State government, in contrast, is the superior jurisdiction for thousands of local governments and, as such, is primarily motivated by considerations of equity and efficiency.

This basic difference between State and local governments is well illustrated by the nature of their respective taxing systems. State government, utilizing the sales and income taxes, efficiently expropriates revenues from individuals both for purposes of redistribution and for programs in which most individuals have little knowledge and over which they have no control. At the level of local government which is financed largely by the property tax, citizens still have ample opportunity to exercise a choice. Through referenda, voters may decide not only whether to commit their own resources to some public purpose, but also may choose among public programs as well.

Nowhere is this relationship between State and local government as tenuous as it is in our system of public elementary and secondary education. Virtually every State has long been charged by its constitution with the responsibility to maintain a free and efficient system of common schools. At the same time, the evolution of the American schooling process from the family to the community has given our public school system a strong local character. Frequently in public education, State and local interests are in conflict.

The Task Force believes that an understanding of this delicate balance is essential to the comprehension of the complexities inherent in drafting a new design for the financing of effective education. Certainly, the complexities of our task are reflected in the diversity of factors which inspired the establishment of this Task Force: the 1970 Illinois

Constitution; recent court cases in this and other states; and a growing national debate over the relationship between public spending and educational effectiveness. In arriving at its conclusions, the Task Force sought to maintain the State-local equilibrium and to see it, not as a potential for conflict, but as an opportunity for harmony.

The Mandate of the 1970 Constitution*

Section 1 of Article X of the Constitution of the State of Illinois provides:

"A fundamental goal of the People of the State is the educational development of all persons to the limits of their capacities.

The State shall provide for an *efficient* system of high quality public educational institutions and services. Education in public schools through the secondary level shall be free. There may be such other free education as the General Assembly provides by law.

The State has the primary responsibility for financing the system of public education." (emphasis added)[1]

The State's traditional concern for efficiency is seen in the second paragraph in the above quotation, which harks back to the charge in the 1870 Illinois Constitution that the "General Assembly shall provide a thorough and efficient system of free schools . . . "[2]

A note of contemporary urgency is struck by the declaration holding the State primarily responsible for financing the system of public education. To date, this mandate has been neither interpreted by the Illinois courts nor specifically translated into the statutes by General Assembly action to revamp the State-local system of school finance. An often advanced interpretation of this provision is that the State is now constitutionally obligated to bear anywhere from 51 percent to the entire cost of the common school system.

The transcript of the debates of the Sixth Illinois Constitutional Convention offers some insight into the meaning of this provision. The Convention rejected a proposal which would have required the State to finance 90 percent of the cost of elementary and secondary education. Moreover, the Convention turned down a proposed constitutional

*See dissent by Donald F. Eslick, p. 166-169

provision which stipulated that funds raised locally for the common schools should not exceed 50 percent of the total school expenditures.[3] Additional discussion among delegates made clear that the provision was not intended to mean that financing the public schools is the State's first responsibility, ahead of all other obligations. From these debates, it is clear that the purpose of the delegates was primarily hortatory: to recognize an issue of widespread concern and to encourage future General Assemblies to assume a greater proportion of the financing of the public schools of the state.

The Task Force prefers the latter interpretation. While applauding the recent efforts of Illinois governors and General Assemblies to give top priority to public spending for education, we do not believe a state constitution is intended to anticipate what the most pressing public needs will be 50 to 100 years hence. Thus, we do not presume to read the phrase "primary responsiblity" as "the first responsibility among many."

Neither do we favor prescribing a fixed percentage as the desired State share of school costs. Any percentage short of 100 percent would be arbitrary and without meaning.

And, as will be explained later, we do not advocate full State funding of what is a highly decentralized element of local government. Despite the constitutional provision for an *efficient* system of public education, here we do not equate *efficiency* with centralization.

Instead, we contend that upon the State rests the obligation to structure the organizational, administrative, and financial arrangements of the complete State and local governmental system in such a way as to advance the aims of all elements of the system. Therefore, we interpret the State's "primary responsibility" in this instance to be the obligation to raise and distribute tax revenues fairly and efficiently, while acting to preserve the qualities in local school districts which offer the most promise for effective education.

Recent Court Cases

A series of recent court cases go to the heart of the tenuous relationship between the State and its local school districts. Taking note

of the wide disparities in the property tax resources available to local school districts, the California Supreme Court held in the case of *Serrano v. Priest* that the quality of public education, measuring quality in terms of dollars available for spending, may not vary because of the varying wealth of school districts.[4] The court found no compelling reason for the State to maintain a school finance system other than one which was fiscally neutral. As was reiterated in a subsequent judgment, *Rodriguez v. San Antonio Independent School District,* the quality of public education may not be a function of wealth, other than the wealth of the state as a whole.[5] A ruling by the United States Supreme Court in favor of the *Rodriguez* decision would create pressures in Illinois to reform its school finance system to conform with the criteria applied in the court decisions.

In any public finance system which taxes individuals and corporations either for payment on services rendered or for purposes of redistribution, some taxpayers receive net benefits and others experience net costs. When designing changes to a system of public finance, it is useful to bear in mind the principle of fiscal neutrality; for, while the ideal itself is unattainable, changes in the system should seek to minimize the detrimental effects on particular segments of the system.

We find that the alternative school financing mechanisms permissible under the court judgments could well disrupt the delicate balance between state and local goals. While intending to invest the existing system with characteristics which would achieve these goals, the court decisions may result in inequities, inefficiencies and a loss of local control of a nature and scope as yet unexamined.

On the matter of equity, for example, we are forced to ask, "equalization for what and for whom?". Broadly defined, the state's equity goal is the intent to treat equally people in equal circumstances. Thus, we would seek to ensure that taxpayers of comparable wealth are taxed similarly and, for their taxes, are provided with approximately the same services. Obversely, the state's system of public finance should not be so discriminatory that some segments of the system are benefited largely at a significant expense to others.

Translating this principle into a discussion of school finance reform,

we find various definitions of the term "equalization". We may seek to equalize "inputs" (measured by school resources such as teachers and materials) or "outputs" (measured by test scores or job or college placement). As will be indicated in our later discussion of recent research there are also arguments that school finance should be designed to enable the educational process to overcome income inequalities. The courts are not defining equity in any of these ways. Instead, theirs is a negative principle: the state's school finance system shall not be one in which the variations in wealth among the local school districts affect spending for the education of any child. While this definition does follow the notion of equal treatment for children in equal circumstances, we will argue below that the possible school finance remedies suggested by the court decisions would result in further inequities of a different type.

Perfect efficiency for the state would be the maximum output or productivity at the least cost. With regard to education, again, the state would try to maximize results (measured by students graduated and placed, test scores?) at the least cost. Furthermore, besides ensuring the efficient use of school funds, the state is obligated to allocate efficiently scarce resources among school and nonschool educational services as well as among educational and noneducational services. As we will explain below, reasonable responses to the court decisions do not necessarily promote state efficiency.

At the other end of the delicate balance, one important aspect of local government nicely complements the state's efficiency aims. While the decentralized form of local government appears to some as inefficient, the local government and local school district provides the consumer of public goods many of the choices which the consumer of private goods is offered by the private marketplace. Just as the marketplace is made more efficient by consumer preferences indicating which goods should and should not be produced, so too does the local property taxpayer-consumer have the opportunity to express his for which public programs should or should not be retained. Moreover, he has the chance to "vote with his feet" by moving to a locality which provides the services for which he is willing to pay. We believe this feature of the state-local

system may be threatened by the possible school financing responses to the court decisions.

The available alternatives consistent with the court decisions would be full State funding; a joint State-local funding program by which all districts would have access to resources equal to those of the wealthiest district; or redistricting to ensure all districts equal local resources.

Full State funding calls for the distribution of funds on the basis of equal grants per pupil. Variations in spending to accommodate differential costs and special education needs would be allowed. Local districts would not be permitted to spend beyond the limits prescribed by the State.

Essentially, two different types of joint State-local funding methods are possible as means of complying with the court decisions.

The existing *foundation formula* can be modified to ensure that every district is assured a foundation equal to the per-pupil spending level of the wealthiest district. Similarly, equalizing formulas such as *power equalizing, percentage equalizing,* and *resource equalizing* would require, to satisfy the courts, that equal local tax rates would result in equal per-pupil expenditures. Where a district's assessed valuation at a given tax rate does not produce the prescribed revenues, the State would pay for the difference. In instances where a given tax rate generates more than is needed for the allowed level of spending, local districts would not be able to spend these dollars.

Redistricting would involve the redrawing of school district lines to balance the tax base. Although Illinois badly needs further consolidation of its 1090 school districts, redistricting as a solution to problems of school finance is rather impractical because it would mean the consolidation of districts into a few large and possibly inefficient ones. At the same time, the taxpayer consumer might be further removed from decisions over programs.*

To the Task Force, a full State funding implies a "leveling down" for certain high-expenditure districts, while the various "equalizing" formulas suggest a "leveling up" program. Any realistic plan for an extensive redistribution of school resources would require, in the end, massive increases in State spending for education. Under any new program, every

* See comments by Donald F. Eslick and Robert J. R. Follett, p. 163

school district would insist on receiving at least as much State aid as it now receives. "Holding harmless" those districts presently receiving significant amounts of aid while equalizing the resources of the poorest districts would require at least $600 million in added State appropriations, an amount equal to approximately half of all revenues raised by the State's income tax.

We must ask again, "equalization for what and for whom?" The evidence we have regarding the relationship between increased school spending and educational effectiveness is inconclusive. We are unable to say with any confidence whether scarce public resources for education should be spent in the schools or outside the schools. The influence of home and family environment on educational achievement is being hotly disputed. Given the absence of this critical knowledge, blind public spending runs counter to the State's desire to allocate its resources most efficiently.

Coupled with the implications for efficiency of the courts' decisions is a serious question of equity of the approach. Most school spending goes for the salaries of teachers, administrators, and other support staff. This is only a natural consequence of education's being a labor-intensive process. Massive increases in State spending would most certainly result in significant salary increases.

In recent years, there has been constant pressure throughout the public sector for higher wages without offsetting increases in productivity. More and more money is being paid to public employees for doing no more work and, in some cases, less work. In the long run, this is an economically untenable situation. Society cannot increase total compensation of all its members unless their total productivity rises. Whenever one group in society gets higher pay with no higher productivity, they are redistributing income to themselves at the expense of others.

Measures of productivity for the public sector are hard to come by, principally because we have not defined our desired outputs very well. This is especially true in the case of public schooling. However, when we see that Chicago per-pupil spending has increased 97 percent in the last

five years and the number of pupils on whom the funds are spent has begun to decline, we must ask ourselves whether, through massive increases in State spending, we would not be inequitably and inefficiently allocating scarce resources into one sector of the economy much to the detriment of others.

Thus, while our conclusions and recommendations elsewhere in this report do suggest measures for the reduction of the gross disparities in local spending for the schools, we do not endorse the condition of absolute fiscal neutrality being considered by the courts. In swinging the balance between the State and local districts firmly toward a simplistic notion of equalization of resources for public schooling, the definition sought in the courts is likely to result in huge amounts of increased public spending for schools. Little regard appears to be given to the State's need to allocate funds between education and other public services or between schooling and other educational processes not necessarily taking place in the schools. State determination of allowed State spending levels would also deprive local districts of their ability to direct spending for local services.

One additional case, in the Illinois courts and therefore of interest to the Task Force, is the matter of *Rothschild v. Bakalis*.[6] At issue is the characteristic of the current State financing system which includes a significant financial incentive for school districts to be organized as unit districts, or as districts consisting of kindergarten through grade 12. This feature of the financing system grows out of the State's desire to see school districts organized most efficiently. While the Task Force believes that the State does have an abiding interest in ensuring that schools and programs are organized to produce the most effective education in the most economic manner, the financial incentives as currently posed are misdirected and again raise the question, "equalization for what?" The Task Force sees no reason why dual districts (districts consisting of either the primary or secondary grades alone) cannot provide education as effectively and efficiently as unit districts. Similarly, unit districts can be inefficient. Therefore, the Task Force concludes that State emphasis on district reorganization should be on the provision of effective programs.

Until such time as the State is clearly able to define the desired standards for local educational programs and is able to propose an organization which best meets these standards, financial incentives for reorganization have no place in a State financing system. The recommendations of this Task Force for a new State aid system reflect these conclusions.

The Implications of Educational Research

The difficulty for this or any state in defining precisely what factors contribute most to effective education is pointed up by the inconclusiveness of research findings.

Research in education has followed two themes: whether schools make a difference in the lives of children and whether dollars make a difference in school quality. In a 1965 report, James S. Coleman concluded, on the basis of a large sample study, that differences in family background accounted more for school-to-school variation in student performance than did the effect of variations in school facilities, curriculum, and staff.[7] This conclusion has been disputed by several re-analyses of the data in the Coleman Report, and Hanushek,[8] Bowles,[9] and Levin,[10] among others, have attempted to demonstrate the relation between enhanced school inputs and student achievement on tests.

In 1972, the Rand Corporation prepared a report for the President's Commission on School Finance.[11] The corporation's study, which distilled 20 years of educational research, concluded that "the current status of research can be described by the following propositions:

> **Proposition 1:** Research has not identified a variant of the existing system that is consistently related to students' educational outcomes.
> **Proposition 2:** Research suggests that the larger the school system, the less likely it is to display innovation, responsiveness, and adaptation and the more likely it is to depend upon exogenous shocks to the system.
> **Proposition 3:** Research suggests that improvement in student outcomes, cognitive and noncognitive, may require sweeping changes in the organization, structure, and conduct of educational experience."

Regarding Proposition 1, the report says that the phrase "a variant of the existing system" includes changes in school resources, processes, organization, and aggregate levels of funding. The report emphasizes, however, that it is not suggesting that nothing "works," only that "research has found nothing that consistently and unambiguously makes a difference in student outcomes."

Research results, then, do not clearly indicate in precisely what manner we must efficiently direct our energies and resources to provide effective education. The Task Force concluded, however, that, in its judgment, the evidence does suggest new directions for school finance.

Conclusions

On the following pages, we present a series of specific conclusions and recommendations which comprise our proposed "new design" for financing schools in Illinois. It is a plan. As with any plan, periodic assessment of progress is necessary. Of the many specific recommendations, several are recommended for enactment in the next session of the General Assembly. The remainder may be enacted in subsequent years.

Our suggested design respects the delicate equilibrium in the relationship between the State and local districts. The State's concern for equity and efficiency is balanced against local desires for program control and taxpayer-consumer choice. We do observe that the State has an obligation to finance what we term a basic education program. Going beyond the basic level, moreover, we are suggesting that the State, through a joint State-local finance program, can assist districts in their desire to commit additional resources for education. Finally, we identify a level of school expenditure for which local districts and local taxes should bear the entire burden.

Furthermore, repeatedly we suggest new programs for experimentation. We believe, for instance, that the State must begin to concentrate resources where there is the greatest likelihood of pupil

failure. Experimentation should also begin with new financial mechanisms which are strongly characterized by the features of equity, efficiency, local control, and consumer-taxpayer choice.

A guiding principle of this Task Force has been that public policy must be designed not only for the well-being of administrative units, but for the benefit of the individual students, parents, and taxpayers.

We have recommended immediate, specific actions because we judge them likely to produce desirable results. In our efforts to achieve more comprehensive recommendations, we have been handicapped by absence of precise information regarding a number of issues. We feel that there are several dimensions of educational finance which require further research.

The first of these is *school expenditures and educational results.* Too little is known about relationships which exist, or might exist, between what schools spend and what children learn. Much of what is acquired in the way of cognitive and noncognitive skills comes from sources outside the schools. The home and play environments of our children are extremely varied. The question of what schools can or ought to do to facilitate, consolidate, or supplement nonschool learning has no single answer.

On the other hand, it would be fatal for education, and for Illinois citizens, if we gave up all hope of understanding the range of services which dollars can buy for various students. We must know not only our educational goals for a given group of children, but whether there are reliable methods for attaining these goals. Further, we must know the costs of these methods. Intelligent financing decisions are impossible without this information.

We also need to know more about *tax burdens and benefits.* Until we are able to correct gross inequities in our taxing system, neither taxpayers nor public officials will be willing to support increased expenditures for education. Issues which must be explored include:

- Incidence of various types and combinations of taxes.
- Distribution of benefits of education in relation to tax burden.
- What choices households and local districts will make regarding

tax rates, expenditure levels, and public vs. private schooling under new methods of financing education. In particular, how these choices will be affected by school finance programs which involve direct redistribution of resources.

Only when we know more about the consequences of our decisions can educational finance policy be developed with more precision than is now possible. We believe that Illinois' system of school finance must be subjected to periodic review when information on these topics is available and after our recommendations have been in effect for a period of years. With analysis and experimentation, we believe that an equitable system of school finance can be developed and that such a system will contribute to Illinois' goal of providing equal educational opportunities for all children in the state.

What must begin now, and the subject to which we first turn our attention, is the beginning of a formal, state-wide assessment of educational progress. As the discussion of educational research demonstrated, we have little idea of what contributes to educational effectiveness. Here in Illinois we are further hampered by the utter lack of information about how well our schools are succeeding in educating our children. As we begin our discussion of assessment and evaluation, we would only emphasize that the need for information is critical, for without it we are unable to determine where we are today, much less measure how far we can progress in the future.

ENDNOTES

1 *Constitution of the State of Illinois* (as adopted September 3, 1970), Article X – Education, Section 1 – Goal-Free Schools.

2 *Constitution of the State of Illinois* (as adopted 1870), Article VIII, Section 1.

3 *Transcript of Sixth Illinois Constitutional Convention,* August 13, 1970 at 255-56.

4 *Serrano v. Priest,* 5 Cal. 3d 584 (1971).

5 *Rodriguez et al v. San Antonio Independent School District,* C.A. 68-172-SA.

6 *Rothschild v. Bakalis,* United States District Court for the Northeastern District of Illinois, Eastern Division, 1971.

7 Office of Education, U.S. Department of Health, Education, and Welfare, *Equality of Educational Opportunity* (1966).

8 Hanushek, E.A., and Kain, J.F., "On the Value of *Equality of Educational Opportunity* as a Guide to Public Policy," in Frederick Mosteller and Daniel P. Moynihan, eds., *On Equality of Educational Opportunity* (New York: Vintage Books, Random House, 1972).

9 Samuel Bowles, "The Determinants of Scholastic Achievement––An Appraisal of Some Recent Evidence," *Journal of Human Resources,* 3, No. 1, Winter 1968, 2-24.

10 Henry M. Levin, "A New Model of School Effectiveness," in *How Do Teachers Make a Difference, U.S. Department of Health, Education and Welfare, Office of Education, Bureau of Educational Personnel Development (OE-58042), 1970b, 55-75.*

11 Harvey A. Averch, et al *How Effective Is Schooling?: A Critical Review and Synthesis of Research Findings.* (Santa Monica, Calif.: The Rand Corporation R-956-PCSF/FC, 1971).

EDUCATIONAL ASSESSMENT AND EVALUATION

Broad interest in periodic formal state-wide assessment and evaluation of educational progress is a relatively new development in Illinois, and coincides with a general desire for closer analysis of the relationship between educational expenditures and pupil achievement. Discussions of strategies for compensatory education and equalization of educational expenditures in this volume and elsewhere suggest that a better understanding of the expenditure-achievement relationship may emerge as a key element in educational policy-making in the next decade.

Confusion of the terms *assessment* and *evaluation* often causes needless controversy. In this report, *assessment* is used to indicate the periodic collection of educational performance data to determine learner progress toward established goals in cognitive and noncognitive thinking and in physical activity. *Cognitive thinking* relates to performance of basic skills such as reading and mathematics. *Noncognitive thinking* reflects learning styles, social skills, attitudes and motivation. An *evaluation* refines assessment data and collects supplementary data to identify determinants of educational progress or lack of progress.

Issues

Selected programs and individual school districts in Illinois have been evaluated for many years, either to fullfill the requirements of Federal legislation or, to a lesser extent, to respond to groups or individuals interested in particular local schools. Recently, however, State education authorities have undertaken to describe specific objectives of an Illinois education in a way that may make possible empirical measurement of current levels of success and future progress. Issues emerging from this which are important to this Task Force are:

- Whether Illinois wants or needs state-wide assessment.
- What balance should exist among different assessment tools and whether any of the tools should be specifically required or disallowed.

- Whether assessment should be geared to provide information for State educational policymakers, for school administrators, for community decision-makers, or for everyone.
- What relationship between educational performance and State funding should exist.

Implementation of Assessment Programs

If demand for a new program is measured appropriately by demand for the program's most desirable potential outputs, then demand for assessment and evaluation is high. Formal assessment and evaluation assist the community of parents and taxpayers by providing additional data for use in judging a learner's progress and in determining the ability of local school districts to translate tax dollars into educational achievement. Assessment and evaluation are also useful in guiding teachers in developing their daily programs. School administrators can use assessment as the basis for channeling district resources to meet revealed learner needs.

The President's Commission on School Finance has recommended that "each state, in cooperation with local school districts, systematically provide for publication and other appropriate communication to the public of the results of the assessments of achievement and improvement in education. These results should be presented on a comparative basis in relation to school, district, state, and national norms, and for such grade levels and subjects as the State may determine."

With financial assistance from the U.S. Office of Education and support from the President's Commission on School Finance, the National Assessment of Educational Progress (NAEP), a project of the Education Commission of the States, has spearheaded the effort to establish assessment programs in all 50 states by laying the groundwork in research and development. NAEP has developed sample test items in a variety of subject areas and is developing national testing norms to evaluate national progress and facilitate the comparison of state results with national results.

Although most states are developing or have already developed assessment and evaluation programs similar to that proposed by OSPI, the

consensus on the need for assessment is not reflected in a similar agreement on methods of implementation of evaluation programs. Many states do not accept standardized achievement tests of all state pupils as the primary instrument for evaluation. Some states employ other evaluation instruments in conjunction with standardized testing of a sample of pupils. Many states are also developing or have developed instruments of their own or are modifying NAEP instruments to accommodate state objectives, particularly for evaluation of noncognitive learning.

The diversity of assessment and evaluation instruments being considered or used by the states is significant since the relevance of assessment to the improvement of educational decision making depends on the choice of assessment instruments, from the state legislature to the classroom. The survey of assessment and evaluation instruments that follows indicates the advantages and disadvantages of each of the various tools.

A Survey of Assessment and Evaluation Instruments

Informal, personal communication with staff and pupils

This technique is the most common form of evaluation. It includes such approaches as parent visits during school hours, school staff meetings, and visits by representatives of the State. The technique is very specific and often has an immediate and direct effect on a school's educational effort.

Despite its advantages, people outside the local school staff are increasingly dissatisfied with this technique. Many find the flow of information generated by the technique insufficient. Many are suspicious of "self-evaluation" by teachers and school administrators.

School Performance Indices

The school performance indices presented in Illustration 1 are representative input, outcome, and process measures selected from a larger list. The input measures include the economic and social factors affecting educational performance, such as a district's budget, size, or average

Illustration 1 **Representative School Performance Indices**

Input Measures

Per Pupil Expenditure
Assessed Valuation Per Pupil
Submission/Success Ratio of Special Levies
Annual Library Books Purchases
Annual Expenditures for Instructional Supplies
Percent of Teachers with Master's Degree
Percent of Teachers who Publish Journal Articles or Books
Percent of Teachers who Receive M.A. Degree Outside State
Balance of Experienced-Inexperienced Teachers
Percent of Teachers with a 100+ Volume Personal Library
Percent of Teachers who Traveled 1,200+ Miles in Last 3 Years
Percent of Teachers Involved in Community Organizations or Activities
Average Age of Teaching Staff
Male/ Female Teacher Ratio
Annual Rate of Teacher Turnover

Process Measures

Percent of Students Participating in:
- Individualized Courses
- Field Trips Per Year
- Athletic Contests Per Year
- Compensatory Education
- Dramatic or Musical Performances

Availability of Psychological and Counseling Services
Availability of Student Activity Centers and Programs
Number of Books per Pupil in Library
Annual Number of Innovative Programs Initiated

Outcome Measures

Students' Grades and Grade Point Average
Number of National Merit Scholarship Finalists
Students' Scores on Standardized Tests
Type of Employment of Former Students
Average Income of Former Students
Percent of Students Entering College
Percent of Students Entering Vocational School
Percent of Student Drop-Outs
Personal Testimony by Former Students
Percent of Student Dismissals
Recognition of Individuals and Groups in Arts, Band or Student Government
Recognition of Individuals and Teams in Athletics
Recognition of Individuals and Groups in Visual Arts

Source: Richard Starbird, *Assessment and Accountability:* Current Status and Implications for the Future of Washington State's Public Schools.

family income. Process measures evaluate educational activities such as teaching and supervision. Outcome measures are designed to establish levels of pupil achievement and the achievement of the system as a whole. These indices may be useful in supplementing other evaluative information on educational progress. They would also be useful as a checklist for administrators and professional evaluators searching for indices relevant to education in Illinois.

Experience in the State of Washington indicates that many of the indices are inexpensive to compile and useful for reporting to the local community and the State board of education. In New York, similar indices are stored in a central information system which permits administrators, researchers, and the public to obtain comparative information on schools and school districts quickly and easily.

Standardized Testing

Standardized testing is unique in its ability to report student, grade, or district performance in terms of uniformly established, state-wide, or national norms. However, using the seemingly unequivocal results of standardized tests as a primary measure of state-wide performance may mislead the public more than inform it. For example,

- Standardized tests measure cognitive skills. Recent evidence shows that noncognitive achievement may be more important in determining success in later life.[1]
- Grade and age equivalent scores rely on questionable statistical assumptions.
- Cultural biases are reflected in test items when a test that is normalized on one population is used to test pupils from another population.
- Standardized tests can measure only a small portion of a program's objectives; the match between the objectives a test purports to measure and those actually measured is imperfect.
- Evaluation by standardized testing may suppress educational experimentation by encouraging teachers to "teach the test."

Tests of Noncognitive Abilities

Noncognitive testing—testing for motivation, attitudes, learning styles, social skills and self awareness—is advancing in sophistication and growing rapidly in popularity (see Illustration 2 for a sample). Many States that have conducted surveys to determine educational needs are relying on this kind of test to provide baseline data on the current status of noncognitive achievement in the state.

These tests are best when they are developed to match state or regional educational goals. As a result, the costs of creating and experimenting with noncognitive tests are significantly higher than for standardized tests.

Teacher Observation and Rating

Teachers are observed and rated by their school supervisors. Classroom observation is one of the few sources of information on the educational process. Patterns of interaction in the classroom may provide valuable clues to the extent of noncognitive learning that takes place.

Attitude Measures - Sample Test Item **Illustration 2**	Objectives: Understand and oppose unequal opportunity in education, housing employment and recreation. Recognize important civic problems. Ages 13, 17, and Adult: Interview A. Is there any place in the world where people are not treated fairly because of their religion? (Yes, No, I don't know) B. (If "Yes" to A) Where is that? C. What kind of unfair treatment happens there? D. Does it ever happen in the United States? (Yes, No, I don't know) E. (If "Yes" to D) Where is that? F. What kind of unfair treatment happens there? Acceptable answers to C and F: Any plausible answers which indicated that the respondents were aware of some actual kind of religious discrimination were accepted. Categories of *acceptable* answers concerned government restriction on where to worship, governmental suppression of any kind of worship, restrictions on beliefs, physical punishment for religious activities, loss of rights of property, place of living or movement restricted, and social discrimination. In some circumstances any of these types of unfair treatment could also be scored as unacceptable answers. For example, governmental restrictions or suppression was an acceptable answer concerning Russia, but it was not acceptable concerning the U.S. since it would be an extremely rare occurance in this country.
Source: National Assessment of Educational Progress, "Citizenship: National Results: Report 2."	

As with standardized testing, the interpretation of teacher observation results is subject to many reservations:

- There is no agreement on the kinds of scales which observers should use in their ratings.
- It is impossible to overcome differences in the subjective judgments of the evaluators.
- Pupil and teacher behavior with an observer present may not be indicative of normal performance.

In the last few years, educational researchers have been refining their techniques of teacher observation to overcome some of these problems. For example, teachers are often observed with their regular classes and with groups of children of the same grade level whom they have not previously taught.

Provider and Consumer Interviews

Formal interviews with educators, parents, and pupils are useful in clarifying the expectations which people have for public education in their communities. These interviews comprise an important part of practically every assessment of educational needs undertaken in the last five years.

The different types of assessment and evaluation tools are summarized in the following table and categorized according to their capacity to measure school success at the input, process, and outcome stages of the educational process.

Table 6
Measurement Capabilities of Different Types of Assessment Tools

Tools	Type of Measure: Input	Process	Outcome	Approximate Relative Cost
1. informal communication	x	x	x	low
2. school performance indices	x	x	x	medium
3. standardized testing (cognitive)			x	low
4. tests of noncognitive abilities			x	medium-high
5. teacher observation and rating		x		high
6. provider and consumer interviews	x	x	x	medium-high

Analysis of assessment and evaluation instruments demonstrates the importance of the choice of evaluation tools. For example, an evaluation program that relies heavily on standardized cognitive testing may overemphasize the importance of cognitive outcomes at the expense of noncognitive outcomes, input constraints, and superior teaching. In the absence of supplementary information, the testing data, often the simplest and least expensive to collect, may mislead analysis of school, regional, or state performance and discourage teachers, administrators, and parents.

Since all the instruments can produce misinformation when interpreted in isolation, it is essential to have a balance of various assessment tools. Implementation of assessment programs should provide for improvement of the instruments as well as dissemination of information about their limitations.

Educational Performance and Resource Allocation

Although Michigan and Florida link the results of performance evaluation, primarily standardized testing, to distribution of State education funds, most States have been unable to develop tests or agree on performance criteria adequate to determine district funding. Even the two states tieing funds to tests disagree: Michigan channels increased aid to districts whose pupils perform poorly on standardized tests, while Florida penalizes low-scoring districts.

The current level of sophistication of educational testing is too low to justify general school fund distribution from formulas based on performance measures. Nevertheless, a closer relationship between performance and funding should be considered a long-term goal.

Recommendations

The Task Force recognizes an urgent need to develop and apply measures of educational progress in the State of Illinois. We recommend a policy that provides for voluntary district assessment as well as mandatory state-wide assessment on a sampling basis.

The State of Illinois should be responsible for financing certain educational assessment services. All Illinois school systems, public and private, should be eligible for these services at no cost to the schools. The services should include professional assistance on a consulting basis in the design of the evaluation, and services in executing the program, including preparation and administration of instruments, data reduction, and analysis.

In the initial years of this program, an annual budget of $1 million for evaluation services should be distributed to schools that can demonstrate the need for such services. The Task Force considers such measures as low achievement test scores, high dropout rates, and high unemployment rates among school graduates to be suitable evidence of need.*

Mandatory assessment requires that a pupil's right to privacy be respected. In the case of assessment sampling, an individual student's raw or scored responses to any instrument should be available to the pupil's parents, but not made public knowledge.

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* See comment by Bishop William E. McManus, p. 164

Given the array and sophistication of the assessment instruments currently available, publication of unaggregated data from an individual school district would not be productive and should not be allowed unless a district requests it and concurs in the assessment program used.

Standardized (norm-referenced) tests should be supplemented by measures of other aspects of pupil development. Assessment instruments should represent a balance of input, outcome, and process measures. Assessment should not be confined to pupil performance but, as soon as practicable, should encompass teacher performance and facility effectiveness.

ENDNOTES

1 For example, see H. Gintis, "Education, Technology, and the Characteristics of Worker Productivity," *American Economic Review*, 61, 1971, 266-279 and, W. H. Holtzman, "The Changing World of Mental Measurement", *American Psychologist*, 26, 1971, 546-553.

SCHOOLS AND FINANCING IN ILLINOIS: AN OVERVIEW

In the current school year, an estimated 2.4 million children are attending 6,411 public schools in 1,090 local school districts throughout the State of Illinois. During this period, these children will participate in an untold number of educational programs taught by 110,000 teachers and managed by 81,000 administrative, service, and support personnel. Close to 2.8 billion in state and local taxes will be expended with the goal of assuring every student an effective education. By any measure, elementary and secondary schooling is the largest single enterprise, public or private, in the state.

Pupil Enrollment

School district enrollments have doubled in the last two decades —— from 1.2 million students in 1950 to almost 2.4 million this year. Although this pupil population is expected to peak in 1974-1975, an average of well over 2.3 million children are expected to enroll in Illinois schools every year through 1978. Table 1 displays anticipated enrollments for the next five years. Due to declining birth rates, the composition of this enrollment will undergo significant change with a decrease in pupils in the primary grades and a substantial increase in students at the secondary level.

District Organization

While enrollments have been increasing, the number of local school districts has been decreasing. There were 2,793 districts in 1953. In 1972 there are 1,090 school districts, more than in any other state except Texas and Nebraska. Despite this consolidation, many districts are still too small to operate efficiently: 12 percent of Illinois pupils attend schools in 662 districts each with fewer than 1,000 pupils. In 73 districts, there are fewer than 100 pupils enrolled.

School districts are of two types in Illinois. Unit districts include both elementary and secondary grades, while dual districts serve either elementary (K-8) or secondary (9-12) pupils. State school finance policy

TABLE 1
ILLINOIS PUBLIC SCHOOL ENROLLMENT PROJECTIONS

School Year	71-72	72-73	73-74	74-75	75-76	76-77	77-78
Enrollment							
K–8	1,678,517	1,665,817	1,645,738	1,627,298	1,615,323	1,599,742	1,585,607
9–12	695,142	712,082	733,878	754,679	770,745	778,130	775,734
Total	2,373,659	2,377,899	2,379.616	2,381,977	2,386,068	2,377,872	2,361,341
Percent Change							
K–8	--	-.757	-1.953	-3.051	-3.765	-4.693	-5.538
9–12	--	2.437	5.572	8.565	10.876	11.938	11.594
Total	--	.179	.251	.350	.523	.177	-.519

Source: Illinois Statewide Public School Fall Enrollment Projections, 1972-78, Office of Public Instruction – Department of Research and Statistics, August 1972

has long been based on the assumption that unit districts are better able to devise coordinated and economical education programs for pupils from kindergarten through high school. For this reason, most state aid programs contain financial incentives for the establishment of unit districts. Despite the financial rewards and encouragement, school district reorganization has progressed little in recent years, with an average annual reduction in the number of school districts of only 3.5 percent for the last five years. Currently, 60 percent of the districts in the state remain dual districts, serving 41 percent of the students in Illinois. At present, there are a number of petitions pending for consolidation of suburban dual districts as a result of growing awareness of the significance of the financial benefits provided unit districts.

Expenditures

Spending on public education has outpaced the rates of both inflation and increasing enrollments since 1950, as illustrated in Table 2.

Table 2
Growth of Education Expenditures, 1950-1972
Illinois

	1950	1960	1972
Public School Enrollment (000's)	1,214	1,788	2,378
Education Expenditures (000's)	$253,599	$640,190	$2,822,300
Per Capita Expenditures	$ 209	$ 358	$ 1,187
% Expenditure Increase		71	232
% Inflation*		23	40

Source: 1950 and 1960 data, National Education Association, Illinois reprint from Education in the States: Historical Development and Outlook. 1972 data, OSPI estimates of enrollment and expenditures for 1972.

* Department of Labor, Bureau of Labor Statistics, January 1972

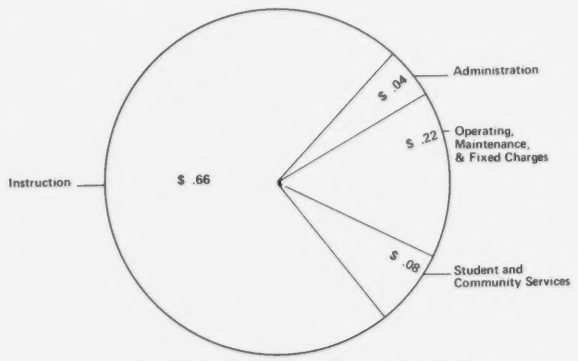
As shown in Illustration 3, the major portion (66%) of expenditure goes to instructional costs. Except for higher allocations for operation and maintenance in Chicago and for transportation in large metropolitan and sparsely populated districts, this pattern of expenditure varies little among districts.

Financing the Schools

Illinois' Constitutions, both present and past, explicitly recognize the State's responsibility for the sound common school education of its children. The State has delegated to local school boards the responsibility for organizing and operating schools and authorizes the boards to levy local property taxes to provide the major portion of schools' financial support.

In 1927, in recognition of the disparities in financial ability among school districts, Illinois inaugurated its state equalization or foundation

Expenditure of the School Operating Dollar In Illinois
Illustration 3



Source: OSPI, "Illinois Public Schools Financial Statistics 1970-71."

aid for school districts. The rationale for foundation assistance was, and is, that all districts are entitled to the assurance from the State that, no matter what their property wealth or poverty, they will be able to support each student with the funds necessary for an "adequate" educational program. In short, all districts were guaranteed an equal starting point or foundation. Since 1927, the foundation level has grown from $34 to the current $520 per pupil in weighted average daily attendance

Almost 60% of the total state and local expenditures for elementary and secondary education is derived from the local property tax in Illinois. The abilities of school districts to raise funds for education vary considerably, reflecting wide variations in property wealth. In 1972 equalized assessed valuations per pupil (AVPP) for elementary districts ranged from $5,388 to $403,024; for secondary districts, $23,945 to $246,980; for unit districts, $3,544 to $101,908. A tax rate of $1 per $100 of assessed valuation in the wealthiest elementary district, then, would produce almost 75 times the revenue per pupil as the same tax rate in the poorest district. In secondary districts, the ratio is 10:1 and in unit districts, 28:1. This is an astounding variance in wealth.

The legislature establishes maximum school tax rates which limit districts with the least property wealth from setting high tax rates to equal the revenues of the districts with high property wealth. Even if these tax rate limits were removed, districts with low property wealth would not be inclined to bear the excessive tax burden that would be required to raise revenues equal to those of districts with much higher property wealth. A comparison of two districts' tax rates and local revenues raised for 1971 demonstrates the disparities which exist in the abilities of districts to raise revenue for education.

Table 3
A Comparisonof Effort and Ability Factors

	AVPP	Total Tax Rate	Local Revenue Per Pupil
Central Stickney No. 110 (Cook County)	$220,432	.992	$2,187
Fairmont No. 89 (Will County)	8,893	2.46	219

Although heavy reliance on local property taxes results in great disparities in local districts' abilities to fund adequate education programs, state aid partially compensates for these differences. Currently the state provides in excess of 40% of state-local expenditures in Illinois, as shown in Table 4.

Table 4
State and Local Funds for Common Schools, School Years 1967 through 1973

	State Aid (millions)	Local Revenue (millions)	Total Funds (millions)	Percent State	Percent Local
1967	$ 368.6	$1,014.1	$1,382.7	26.7	73.3
1968	491.9	1,229.9	1,721.8	28.6	71.4
1969	516.6	1,228.3	1,744.9	29.6	70.4
1970	787.0	1,651.4	2,438.4	32.3	67.7
1971	954.7	1,301.4	2,256.1	42.3	57.7
1972[a]	1,028.7	1,508.6	2,537.3	40.5	59.5
1973[a]	1,161.8	1,660.5	2,822.3	41.2	58.8

a. Estimated funds.

Source: OSPI "State and Local Financing for Illinois Public Schools, 1972-73"

The major portion of state aid to public schools (an estimated $1.2 billion in 1973) is distributed through a complex general aid formula.

The first requirement for participation in the general aid formula is that a local district levy a minimum tax rate, or "qualifying rate ". For school year 1972-73 these qualifying tax rates are:

Best 6 months Weighted Average Daily Attendance	Elementary Qualifying Tax Rates	High School Qualifying Tax Rates	Unit Qualifying Tax Rates
less than 100	.90	.90	1.08
more than 100	.84	.84	1.08

The tax rate for dual districts is the combination of rates from an elementary district and a high school district. Since this combined rate is higher than the unit district qualifying rate the formula provides an advantage for unit districts.

The following examples illustrate the disparity in the qualifying amounts required of unit and dual districts.

Unit District

Assessed Valuation (AV) $20 M
Qualifying Rate (QR) for State General Assistance $1.08 per $100 of AV.
Qualifying Amount $216,000

Dual District

Assessed Valuation $20 M
Q.R. $1.68 per $100 of A.V.
Qualifying Amount $336,000

Elementary
A.V. $20 M
Q.R. $0.84 per $100 of A.V.
Qualifying Amount $168,000

High School
A.V. $20 M
Q.R. $0.84 per $100 of A.V.
Qualifying Amount $168,000

For formula purposes pupils are counted by a district's best six months' average daily attendance, and high school students are weighted at 1.25. If the qualifying tax rate applied to local assessed valuation does not produce $520 per weighted ADA, the state will pay the difference between revenues raised and the guaranteed level ($520) of per pupil expenditure.

If a district's state aid per weighted pupil computed by the process just described is less than $120, an alternative method may be used for computing the district's state aid per weighted pupil. Under the alternative method three steps are required. First a determination of the district valuation per pupil which would produce state aid of $120 per pupil under the previously described process. Second a determination of the ratio of the district's actual assessed valuation per pupil to that derived in step one. Third a determination of the product of $120 and the ratio derived in step two.

Districts which attain $520 per weighted pupil by levying the qualifying rate are provided by the state with $48 per weighted pupil. Allocations made through any of these three methods of computation are then increased by 19% to determine a district's total allocation.

The extent to which this formula has an equalizing effect is illustrated in Table 5.

Table 5
An Illustration of the State Aid Formula

	State Aid Per Pupil	Total Available Revenue Per Pupil
Central Stickney	$ 57	$2,244
Fairmont	474	693

It should not be inferred that the state aid formula has no equalizing effect. However, the maximum allowable support level of $618.80 ($520 x 119%) is so low that poor districts cannot hope to receive enough aid to enable them to spend at a level comparable to that of wealthier districts. The "flat grant" provision further "disequalizes", since all districts, no matter how wealthy, receive $57 per pupil.

A further component of state funding distributed through the general aid formula is the large district "density" bonus. Districts with over 10,000 pupils in weighted ADA receive additional funds based on a proportion of pupils in excess of certain populations. For example, a district with 12,000 pupils may claim $520 for 4% of its pupils, or $520 x .04 x 12,000 = $249,600. The bonus percent of ADA increases with the size of the district.

The large district bonus is designed to help population centers. The rationale is that large urban centers have higher education costs than other areas. However, the bonus is allocated to districts on the basis of their pupil population rather than the pupil density of districts. In some cases, districts receiving the bonus are suburban rather than urban districts.

The large district bonus gives no consideration to the differing abilities of the larger school districts to meet their education costs. Several of the districts provided a density bonus have assessed valuation per pupil well above the state average.

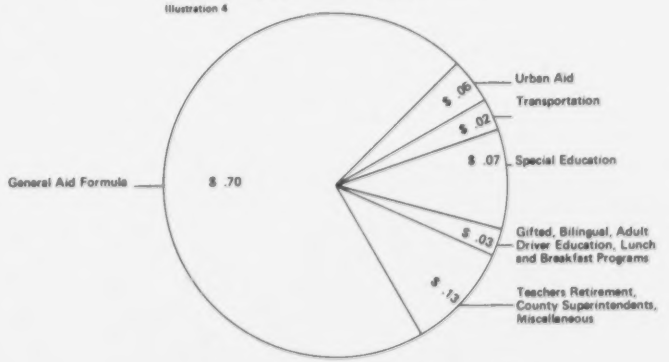
Categorical Aid

In addition to assuming an adequate level of support for each child in a regular educational program, the State provides "categorical support" for specific educational programs. Such programs include education for the handicapped, for the gifted, for children with language problems, vocational education and transportation. With this categorical assistance, the state seeks to ensure the availability of these special programs which are more costly than regular educational programs.

Illustration 4 shows the proportion of state aid to public schools for current operating expenditures through the general aid formula and through categorical programs.

Distribution of the State Aid Dollar to Public Schools for Current Operating Expenditures 1972-1973

Illustration 4



Source: State of Illinois Appropriations Book for Fiscal 1973

The unequal capabilities of districts to spend on education programs are further reinforced by categorical programs which, with the major exception of transportation reimbursement, ignore ability to pay criteria and instead distribute funds on a flat grant basis. Funding of transportation and special education (the most costly categorical program) are closely examined in later chapters of this report. The granting of flat amounts for programs does not contribute to equalization since poor districts cannot afford to supplement state funds with their own resources. They often do not provide adequate categorical programs and miss out altogether on both the programs and the state aid. Thus while the various state financial programs have reduced somewhat the vast differences among the financial resources available to local school districts, very significant disparities still exist.

A New Design:
Resources

RESOURCES

Early in our deliberations, we recognized that the central defect of the present system of school finance is an inadequate State and local tax structure. Although "tax reform" has been widely discussed in recent months, the need for reform is not new. We have lived with this inadequate structure for a long time.

Increasing demands for tax dollars in recent years accentuate the need for tax reform. Large population increases since 1947 have greatly increased the demand for all public services, especially education. Chronic inflation has pinched the consumer's pocketbook and, at the same time, increased the cost of government services. Federally initiated social programs and a greater awareness on the part of the disadvantaged of their rights have caused huge expenditures by Federal and State governments. Revenue sharing, which was to be financed by the fiscal dividend of excess Federal tax revenues, will supposedly relieve State and local taxes but has not yet reduced any taxes. The salary structure for public employees at all levels of government has been upgraded, adding to the demands for revenues. Finally, these pressures were intensified by the recession of 1970, unique in being the first economic downturn following a major expansion of Federal social programs. The result has been a consistent increase in taxes of all kinds, particularly at the State and local levels.

This seeming unending demand for new tax monies, coupled with very little accounting to the public for what these tax dollars are really buying, has contributed to a sense that things are not right. Hence, the "taxpayer's revolt."

Substantive tax reform is not simply a matter of closing loopholes, eliminating some taxes, changing the base of others, and enacting still others. In its entirety, tax reform must be a fundamental redefinition of what it is that governments do and how money is raised to do it. Accompanying this formidable task are two others: determining what ought to be done, and mobilizing a political consensus to effect change.

In other sections of this report we address the questions of what one element of government, our school districts, should accomplish and how

funds should be distributed to achieve educational goals. In addition, our study of the tax system now raising funds to support the common schools revealed the need for change. Aspects of the system needing revision are addressed by our conclusions and recommendations. At the same time, we point out characteristics of the system about which little is known. We see an urgent need for these questions to be resolved.

The Local Property Tax as a Revenue Source for the Schools

In the last four years, the State has doubled its financial assistance to local school districts and thereby decreased the districts' dependence on the property tax. Nevertheless, the property tax is the source of more than 55% of school revenues.

Recent attention has been focused on the defects of the property tax. Principal among these is the heavy burden, absolute and relative, that the tax places on lower income families. Table 7 includes an estimate of the Illinois property tax burden as a percentage of Illinois family income. Let us consider a family of four with an income of $5,000. If they live in a $10,000 home, they pay approximately $300 in property taxes, $150 in sales taxes, and $25 in State income taxes. In addition, the family has a federal income tax bill of $98 and a Social Security wage tax of $260. The family's property tax bill is their largest single bill. It is larger than the total of all other taxes the family pays excluding Social Security. The property tax amounts to about 17 percent of the family's gross income above the poverty income level (including imputed rent income), and about 22 percent of the family's disposable income above poverty level.

In addition to placing a heavy burden on low income families, the property tax discriminates against persons owning large amounts of taxable property. A study for the Illinois Commission on Revenue in 1963 found that the effective rate of property taxation on Illinois Farmers in 1960 was 20.5 percent of net income while it was only 4.2 percent of personal income for the Illinois economy as a whole.[1] Generally, there is a positive relationship between the amount of property an individual owns and his ability to pay. For example, a person who owns a $100,000 house is assumed to be better able to pay property taxes than a person owning a $20,000 bungalow. However, numerous exceptions, such as the farmer

Table 7

State and Local Taxes as a Percentage of Total Income For All Illinois Families by Income Class - 1967

	Individual and Corporate Income*		Sales, Selective Sales, & Others		Inheritance		Property		Total	
Income Class	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.	Ill.	U.S.
Under $2,000	.8%	.6%	6.0%	6.1%			6.0%	6.9%	12.8%	13.6%
$ 2,000 - $ 3,000	.7	.6	5.3	5.5			4.5	5.2	10.5	11.3
$ 3,000 - $ 4,000	1.0	.8	5.6	5.6			4.1	4.7	10.7	11.1
$ 4,000 - $ 5,000	1.1	.9	5.3	5.3			3.7	4.2	10.1	10.4
$ 5,000 - $ 6,000	1.2	.9	5.2	5.2			3.7	4.2	10.1	10.3
$ 6,000 - $ 7,500	1.4	1.0	5.0	5.0			3.3	3.8	9.7	9.8
$ 7,500 - $10,000	1.7	1.2	4.7	4.6			3.0	3.5	9.4	9.3
$10,000 - $15,000	2.0	1.3	4.2	4.2			2.9	3.3	9.1	8.8
$15,000 and over	2.8	2.4	2.7	2.7	1.1	1.3	2.1	2.4	8.8	8.8

*These taxes were not in effect in Illinois in 1967 but the burden was computed as it would have been had the taxes existed at that time.

Source: Edward Clarke, Richard Kolhauser, James Reed, *Bureau of the Budget Revenue Study*, (Unpublished report, State of Illinois, 1970)

and the retired couple with a low income living in their own home provide evidence of the financial hardship often created by the property tax.

Some argue that property taxation follows the "benefits received" principle. The more property one owns, the more benefits he receives from local government in the form of police and fire protection and the provision of streets, sidewalks, sewer and other facilities. Although this rationale has some merit, it is difficult to argue that the more property one owns, the more benefits he receives from the local schools which spend approximately 60% of the property tax revenues.

The property tax also discriminates against persons or firms who increase the value of their property by additions, repairs or renovations, because such improvements often increase property tax bills. In urban areas, high property taxes contribute to decisions to abandon property. Some planners blame the property tax for fiscal zoning and urban sprawl. Local government planners and officials often translate community growth strategies into a balance between the additional government costs for schools, water, and sewerage, and new property tax revenues; in this matrix, a multifamily dwelling unit containing many children for the schools is seen as costlier and therefore less desirable than a single-family dwelling or a fast-food franchise. This feature of the property tax system reinforces the gross disparities in local school district property tax resources, as wealthier districts seek to protect their status by excluding poor people.

A further shortcoming of the property tax as a primary revenue source for the schools is its inelasticity, or the failure of its revenues, assuming fixed tax rates, to grow at a rate equal to the rate of growth of the economy.* Because of this characteristic, many school districts are in an almost perpetual state of financial difficulty. One of the results of this inelasticity is frequent—in some cases yearly—attempts to raise property tax rates.

From the perspective of sound fiscal management, the tax yield at fixed tax rates should grow at a rate that will support a constant level of program quality – in other words, a rate sufficient to offset cost of living increases and to cover salary increases built into existing pay plans. An

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* See comment by Donald F. Eslick, p. 164

inelastic tax creates too much negative pressure on school programs.

A further difficulty of the property tax is its administration. The basic reason for this difficulty is the subjective nature of the initial assessment procedure, the placing of a value on property. Ideally, all property within a given tax jurisdiction should be assessed uniformly. However, because of the difficulty of tax assessment and the lack of trained assessors this goal is not usually achieved.

The Revenue Act of 1939 requires that the State supervise and direct the local assessment procedure to ensure that all assessments are made "relatively just and equal." Many factors in addition to the root problem previously mentioned contribute to making this mandate impossible to carry out.

In most counties, assessment is performed by an elected township assessor, and often the township is too small to justify a full-time assessor. The assessor, then, usually performs this function part-time while holding another job. Since most assessors are elected, it is difficult to require that they possess minimum qualifications of training and education.

In addition, it seems highly incongruous for property to be assessed by township when intercounty equalization is performed by the State by applying one "multiplier" in all townships of a given county. In theory, county boards of review equalize assessments among townships. In practice, however, it is quite common for properties in different townships of the same county to remain at distincly different levels of assessment.

The elective requirement for assessors exposes the position to political gamesmanship, when all standards of the profession call for this function to be an objective, nonpolicy, nonpolitical, and purely fact-finding job. Temptations for favoritism and conscious underassessment can be great.

In the case of difficult assessment jobs, such as utilities, local assessors are liable to find the valuation task overwhelmingly complex. The Illinois Department of Local Government Affairs assesses certain properties of railroads, but most other large complex properties are left for local assessors.

Among the many inequities that arise from this situation is the high variation in assessment ratios for different parcels of the same type of property within a given assessment jurisdiction (usually the township). One measure of this variation is the coefficient of dispersion, defined as the average (mean) deviation from the median assessment ratio, divided by the median assessment ratio. The higher this coefficient, the greater the variation or dispersion in assessment ratios.

An often-cited measure of an acceptable level of variation in assessed values of a given type of property within an assessment jurisdiction is 20 — that is, the average deviation from the median should not exceed 20% of the median. As an example, using this standard, if the median assessment ratio in a township were 50%, a parcel of property whose ratio deviated from the median by being assessed at 40% of market value (.50 - (.20 x .50)) or 60% (.50 + (.20 x .50)), then the assessment value is within the standard variation.

Examples of the median assessment ratio and the coefficient of dispersion for various property classifications in Cook County in 1969 are shown in Table 8. According to this measure, houses in Cook County are assessed at a reasonably uniform level, having a coefficient of dispersion of only 16. In each of the other classes shown, however, the coefficients are above the goal of 20 and, in the case of gasoline stations (coefficient of 53) and vacant land (coefficient of 46), the assessment variation is extremely high. For gasoline stations, this means that the average deviation from the median assessment ratio is over 50%. Of course, one explanation for the higher coefficients of variation for these latter types of property is that they are undoubtedly more complex and difficult to value than houses.

Table 8
Assessment Ratios and Coefficients of Dispersion, Selected Classes of Real Estate, Cook County, 1969*

Type of Improvement	Median Assessment Ratio	Coefficient of Dispersion
Split level houses, 1 & 2 story modern residences, modern row houses	22%	16
Modern apartments, not over 6 flats	27%	24
Old style store, loft and apartment building	42%	36
Gasoline stations	35%	53
Vacant - no buildings	13%	46

* For years, Cook County has classified property for assessment purposes, even though the 1870 Illinois Constitution required uniformity. The 1970 Constitution allows classification—subject to limitation prescribed by the General Assembly—in counties of more than 200,000 population.

Source: Illinois Property Tax Statistics, 1970, Department of Local Government Affairs, State of Illinois, Springfield, 1972, Table XVII.

Different types of property are commonly assessed at different ratios to fair market value within the same assessment jurisdiction. For example, the assessment ratios for the ten Sangamon County townships in 1969 were as follows:

Auburn	39%	Illiopolis	36%
Capitol	46%	Pawnee	28%
Chatham	35%	Rochester	35%
Clear Lake	27%	Springfield	41%
Gardner	29%	Woodside	39%

Although Cook County is the only county that officially and openly classifies real estate for assessment purposes, unofficial classification appears to occur in the other 101 counties. As a result, some types of property are taxed more heavily than others. In general practice, lots and other vacant land are assessed at lower percentages of market value than improved properties.

Any multiplier then applied is county-wide and does not affect different assessment ratios among townships. County boards of review are empowered to equalize assessment ratios within the county by changing assessment levels for entire townships, but, as noted earlier, this seldom is done. Variations in assessment ratios among different assessment districts are particularly inequitable where one or more units of local government overlap assessment districts. For example, in Sangamon County, several local governments cover more than one township. This is true of school districts, park districts, airport districts, water districts, and, of course, the county itself. In the case of school taxes, for example, this means that two families living in identical houses in different townships and sending their children to the same school pay different amounts of school taxes.

In general, the public is grossly uninformed as to the legal level of assessment, the valuation methods followed, the workings of the property tax "multiplier," and the legal avenues of appeal. To many, the tax is a

vast maze of complexities and inequities. A vote against any and all attempts to raise rates becomes the only practical avenue of protest.

Despite these problems, wholesale replacement of the local property tax would be extremely difficult. Eliminating the property tax would permit substantial windfall gains to certain classes of property owners. Replacing it with another local tax could result in some of the same problems of interdistrict resource disparities now inherent in the local property tax. Perhaps most important, very few taxes produce the property tax's annual yield at rates which are neither confiscatory nor destructive of the tax system itself.

Alternative Revenue Sources for the Schools

These criticisms of the property tax suggest the need to examine the entire revenue system to find methods for reducing or eliminating the role of the property tax in school finance. Taxes which would be new to Illinois, such as a tax on commodity futures, a lottery, a value-added tax, a State property tax, and a local income tax, as well as increases in existing taxes such as the State income and sales taxes were analyzed in detail in staff working papers.[2] The highlights of these papers are reviewed in this section.

Presently, no taxes are levied anywhere in the United States on commodity futures transactions although New York State taxes stock transfers. For Illinois, two types of taxes on commodity futures transactions were considered. One type was a uniform tax per transaction. On a range of rates from $.10 to $1.00 per contract, estimated revenues would be between $1.2 million and $12 million annually. The other was a tax on commissions charged by brokerage houses for commodity futures transactions. For tax rates ranging from 5 percent to 20 percent of commission charged, the estimated annual yield would be $4.8 million to $19 million. In addition to the inadequacy of revenues expected from this tax, the Task Force determined that such a tax could have a potentially deleterious effect on the market in commodities futures transactions.

The Task Force examined the possibility of a State lottery, but did not find it an acceptable alternative to the property tax.* The lottery's

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* See comment by Robert J. R. Follett, p. 164

popularity as a revenue source is understandable, because participation is voluntary. Yet, the lottery evades the question of who should pay for what benefits. Little is known about the lottery's use by various income classes. Annual revenue growth is highly uncertain. The Task Force estimates that an Illinois lottery, similar to that established in New Jersey, would yield $104 million annually. Furthermore, while the cost of administration of all Illinois State taxes is less than 1 percent of gross receipts, costs of administering lotteries range from 8 percent of gross receipts in New Jersey to 18 percent in New Hampshire.

There is renewed interest, at the State and Federal levels, in the value-added tax (VAT) as an alternative revenue source. A VAT is a percentage of the sale price applied at the point of sale on the value added by each firm to a good (or service) as it moves through the production process from raw material to final product. For example, a clothing manufacturer buys cloth from a textile mill for $10 and sells a garment to a retailer for $30. The VAT rate is applied to the $20 of value added.

The VAT resembles a sales tax with multiple collection points. Its proponents argue that it is a highly productive tax that is more responsive to economic growth than the sales tax or the property tax. It is estimated that, in Illinois, the VAT tax base grows 1.0 to 1.5 percent faster than the personal property or sales tax base. Approximately $1.7 billion could be raised in Illinois with a 3% VAT.

The tax is easy to administer and politically attractive because it is indirect. However, it places a heavier burden on high gross income-low profit firms than the property tax. Economic research has not established the effect of VAT, but most studies suggest that the tax burden will be passed along to the consumer.[3]

VAT permits industrial states like Illinois to export a share of the tax burden to residents of other states, but this might bring about reprisals from other states. The difficulties of recording and policing interstate flows of goods and services would confuse the operations of large multistate corporations. It has recently been proposed that states adopt

value-added taxation in a coordinated fashion and applied at the "origin" of those productive processes that create added value. This suggestion is not greatly different from the Federal government's adopting VAT and distributing the proceeds under revenue sharing.[4] In any case, such a nationwide approach to VAT seems a number of years off.

The Task Force sees few advantages to adopting a State VAT as opposed to modifying existing state taxes. Whether VAT is more or less regressive than the retail sales tax is almost entirely dependent on how the tax base is defined. There is little evidence as to the effect of VAT associated with various definitions of the base. Experimentation with the tax might lead to excessive reliance on the taxation of consumer goods and the rejection of carefully analyzed reform of currently existing taxes such as property tax "circuit breakers."

A single, state-wide property tax has been suggested in New York and in California as a major source of revenue for public schools. Such a tax could totally or partially replace the local property tax. Illinois now has a State property tax, but because the General Assembly has not set a property tax levy since 1932, Illinois citizens have not paid a State property tax for 40 years. Prior to 1932, the tax was a significant source of State revenues. The General Assembly could reestablish the State property tax merely by setting a levy for it. A rate of $3.45 per $100 of equalized assessed value would raise $1.66 billion, the amount that will be produced in 1972-73 by local school district property taxes.

Although a state-wide property tax could be implemented, it has several disadvantages. The tax is as regressive and discriminatory as the local property tax. Although a State property tax would avoid the problems of unequal distribution of wealth throughout the State and of adversely affecting the location decisions of families and businesses, the State income tax and the State sales tax avoid the same problems but yield revenues that increase more rapidly than those raised by a property tax.

The chief advantage of a state-wide property tax is that, theoretically, the State would administer the assessment of property value uniformly. Ironically, the State property tax recommended in New York

may not be administered by the State, but by the existing local tax machinery. As a result, New York State may lose the greatest advantage of the tax. Because a State property tax has no clear advantage over the present system, the Task Force does not recommend its use.

Increasing the State sales tax or broadening its base to include services for example, is another means of raising additional revenues for the schools. If the present sales tax base were not changed, replacement of local property taxes for supporting schools would require an increase of the State sales tax to 10 percent. When combined with the present 1 percent local sales tax, the total general sales tax rate in Illinois would be 11 percent.

The sales tax is easily administered, but it is a highly regressive tax. Since persons or families with high incomes spend smaller percentages of their income on taxed items, such as food, the burden of the sales tax does not affect them as heavily as it does families with low incomes. The Task Force does not recommend doubling the State sales tax to replace a regressive local property tax. If revenues from the sales tax must be increased, the base of items or activities taxed should be broadened.

There are numerous advantages to the taxation of income to replace property tax revenues or as a source of additional revenues. The income tax reflects the ability-to-pay principle of taxation and provides a very effective way of relieving lower-income families and individuals from some of the growing burden of State and local taxes. It is highly responsive to economic growth and therefore responds to increasing revenue needs.

Critics of the local property tax who want to retain local control of the tax source recommend the local income tax. Such a tax, similar to a State and federal income tax, is progressive and less discriminatory against certain groups or occupations than the property tax; however, conversion to income taxation fails to overcome the problem of great disparities in the tax base between wealthy and poor districts. A local income tax administered at the school district level, as it is in Pennsylvania, Ohio, and Kentucky, is difficult and costly to manage. The Task Force rejects the local income tax because, despite its advantages, it merely redistributes the existing disparities in district tax bases.

If and when the State requires additional revenues for education, an increase in State income tax rates or an expansion of the income tax base may provide the best alternative. Thirty-seven states levied a personal income tax as of January 1, 1971. Rates ranged from a flat 2 percent in Indiana to a progressive rate structure rising to 14 percent in New York. The flat rate in Illinois is 2.5 percent. The effective rate of State personal income taxes on a family of four with adjusted gross income of $7,500 ranged from a low of 0.1 percent of adjusted gross income in California to a high of 3.2 percent in Minnesota. The median was 1.2 percent.[5] In Illinois, the effective rate for a family is 1.2 percent. The effective rate approaches the 2.5 percent flat rate as income increases.

Even though it has a flat rate structure, in practice the Illinois income tax is progressive. "Loopholes" are avoided under the individual income tax because personal deductions, capital gains, and interest on State and local bonds are treated equally with other kinds of income, and personal exemptions are relatively generous. The tax shows high revenue productivity and is relatively easy to administer.

For purposes of example, suppose the Legislature decided to abolish the property tax as a source of revenue for financing local schools, to retain it for financing other units of local government, and to replace the reduced revenues by raising the rates of the State income taxes. On the basis of results in 1971, when individual and corporate income taxes combined yielded roughly $1 billion and the funds raised by local property taxes for education amounted to about $1.5 billion, it is estimated that replacing the "education portion" of the property tax would require that income tax rates increase to about 2.5 times their present level. This would result in rates approximating the following:

individual income tax – 6.25%
corporate income tax – 10%

Such a shift reduces the property tax burden in Illinois by an average of about 60%.

This change would make Illinois' state-local tax system less regressive

and more elastic, since the Illinois income tax is progressive and relatively elastic, while the property tax is regressive and relatively inelastic. We do not, however, recommend such a drastic step.

Recommendations Concerning Revenues for Financing Elementary and Secondary Education

On the basis of the previous discussion, we submit the following recommendations.

1. **Ideally, the following sources of funds could be dedicated to additional financing of elementary and secondary education over the next several years in the event that adequate allocation of additional revenues can produce significant reform.**

   - **50% of the growth of State tax revenues.**
   - **Two thirds of the State's share of general revenue sharing from the Federal government.**
   - **100% of the growth in State income tax revenue sharing to counties and municipalities, i.e., yearly municipality and county receipts would be frozen at their FY 1973 dollar amounts. Dollar growth in the one-twelfth share would go for education. This can be done as a result of the enormous additional revenues for cities and counties from federal revenue sharing.**

Estimated dollar amounts from these theoretical sources for the next several fiscal years are shown in Table 9.

It was not the responsibility of this Task Force to evaluate the needs of programs which compete with education for scarce state resources. However, we are encouraged by the performance of the economy and the additional yield in state taxes that result. We are also aware of the slackening of growth in welfare case loads and costs. Together, these factors will provide considerably greater flexibility in the state budget and we believe these sources in the amounts stated are realistic expectations for school finance.

Table 9
Estimated New Funds Available for Elementary and Secondary Education Without an Increase in Taxes

Year	50% of Increase In State Tax Revenue[1] Increase Over Previous Year	Increase Over FY 1973	67% of State Share in Federal Revenue Sharing	100% of Increase In State Income Tax Revenue Sharing	Total New Funds To Education[2]
FY 72			$30		$ 30
FY 73			64		64
FY 74	$ 93	$ 93	70	$ 8	171
FY 75	98	191	71	15	277
FY 76	104	295	73	24	392
FY 77	110	405	78	33	516
FY 78	117	522	--[3]	42	564
	$522	$1,506	$386	$122	$2,014

1 Liability basis rather than actual receipts basis.

2 Each entry represents the amount of State aid to elementary and secondary education above the FY 1973 level.

3 Present revenue sharing act expires at the end of calendar 1976.

Source: Estimates by Revenue Subcommittee staff

We recognize that the goal of providing 50% of the annual increase in State tax revenues and 67% of the State share of federal revenue sharing for elementary and secondary education may not be feasible every year. There are, of course, other demands on State dollars. The allocation presented in Table 9, then, should be considered as a goal for the next several years.

2. If additional revenue for education from the sources outlined in Recommendation 1 is insufficient, we recommend alternative revenue sources. Specifically, we are opposed to the use of the following taxes to raise additional funds for education: commodity transfer tax, lottery, value-added tax, state-wide property tax, local income tax.*

We do not recommend raising rates of the sales tax, but broadening the base or changing the form of the tax should not be precluded.* Although there are strong equity arguments against raising sales tax rates, broadening the base of this levy could reduce its regressivity and increase its elasticity.

In our opinion, the Illinois State income tax is the most equitable tax levied in the State. It is progressive and nondiscriminatory toward any particular group or occupation. We recommend that new funds for education, if other revenue sources prove inadequate, should be obtained by raising the rates of the State income tax.

3. In general, less reliance should be placed on the property tax as a source of funds for financing schools and other units of local government. The well known disadvantages of this tax in the areas of equity, automatic responsiveness to economic growth and administration, have become more pronounced with the growth of the tax burden.

4. To accomplish our goal of less reliance on the property tax, we recommend that when the resources outlined in Recommendation 1 are earmarked for elementary and secondary education, property tax extensions by all units of local government (with exceptions noted below) should be frozen for two years.** Such a freeze, although a strong measure, would accomplish certain desirable results:

. Halt the trend toward increased disparities in per-pupil expenditures among school districts as a result of increasing

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* See **dissents** by Donald F. Eslick, p. 170

** See dissent by Dr. Leo Cohen, p. 170

property tax revenues, whether by increasing the rate or broadening the base.

- Halt the barrage of criticisms over increases in property tax burdens.
- Generate renewed interest in the General Assembly in alternative methods of financing schools and other units of local government.
- Encourage school districts and local governments to undertake a careful evaluation of their operations to eliminate waste and low priority programs.

We recognize that certain situations would make a complete property tax freeze undesirable. We recommend, then, that exceptions to the freeze be allowed where:

- Increased property tax extensions are necessary to bring about a minimum qualifying rate in order to receive certain State aid,
- New units of local government are created while the freeze is in effect. These units could extend taxes in accordance with statutes dealing with maximum rates,
- Increased extensions are necessary to retire outside indebtedness,
- A school district's enrollment increases. Extensions by the school district could increase by the same percentage as enrollment increases,*
- Increased extensions are approved by a local referendum.

5. After the property tax freeze, consideration should be given to extending the property tax "circuit breaker" form of relief to families of all ages.* Persons who are 65 or older or are disabled will receive this type of relief beginning in 1973. Under the "circuit breaker", the State provides a grant to families where real estate taxes on their residences exceed a specified percentage of their incomes. This concentrates relief where it is needed most, is less expensive than

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* See comments by Leonard Gardner, p. 165

across-the-board relief plans, and does not affect local revenues.

6. To improve administration of the property tax in Illinois, the following is recommended.

A. At the county level

1. County assessors—Township assessors should be abolished. The county board in each county should appoint a county assessor and deputies from a list of State-certified eligibles. Such a move would aid in removing the assessment function from politics, in ensuring qualified assessors, and in providing an assessment area generally large enough for a full-time assessor.
2. Cooperation Among Counties—Legislation should be adopted to encourage small counties to merge the local assessment functions or to share facilities and staff; the smallest counties should be required to do so. Many economies of scale and other cost-reducing advantages are likely to be realized where sparsely populated counties cooperate.
3. County Boards of Review and Equalization—Members of multicounty or county boards of review and equalization should be appointed or elected from a list of State-certified eligibles. Each of these boards should cover a sufficiently large area or population to warrant the creation of a board of competent people. Unlike the present method of selecting board of review members, this method could require a minimum level of training and experience — qualifications which appear highly desirable for a meaningful review of the work of assessors.
4. Use of Results of Sales Ratio Studies—Sales ratio data, annually publicized widely by the State, should be acceptable as evidence in local and State appeals and any assessment in excess of or less than 20% of the median

value should be made prima facie evidence of need for relief. State sales ratio data presently are not generally admissible as evidence in litigation concerning assessments. Such data, however, very often represent the best and often the only objective indication of the assessment level in a given area. Denial of the use of sales ratio data may deny relief for persons assessed at levels significantly above the prevailing level in their area.

5. The Tax Bill—The yearly tax bill should state the true value of the property as appraised and recorded by the assessor and the fractional statutory level of assessment. This information would be a small bit of data which would aid the taxpayer in determining whether or not his property has been accurately assessed. This is especially important in Cook County, where different types of property are assessed at different percentages of true value.
6. Recording and Presentation of Assessments and Other Property Tax Information—To aid in all types of analyses and planning, assessors should be required to record assessments according to some minimal economic use breakdown, e.g., single family residences, apartments, industrial property, commercial property, farmland, and so on. This breakdown could be in addition to or in lieu of the current presentation, i.e., lands, lots, and personalty. Meaningful analysis of the economic and other effects of the property tax often requires knowledge of what portion of the tax is levied on homes as contrasted to commercial property and industrial property. This information is not revealed by present recording practices.
7. Current Collection—Property tax collections should be made more current, that is, the collection of revenues should be made to coincide more closely in time with the expenditure of funds. In Illinois, from the time a local levy

is approved until the tax bill has been sent and collected and funds are distributed to local governments, almost two years may elapse. It is common, in the case of some school districts and other units of local government, for property taxes levied for a given budgetary year not be received until that year has passed. Such governments are forced to issue tax anticipation warrants and, of course, to pay the resulting interest. For Chicago public schools alone, interest on tax anticipation warrants in 1971 amounted to $7,139,000. Practice in other states reveals that property tax collection can be made much more current than is the case here.

B. At the State Level

1. State Participation in the Cost of Assessment—The State of Illinois should defray at least one-half of the total cost of property assessment. Not only would this help to ensure that adequate funds are available for paying assessors and meeting other expenses, but it would give the State leverage in requiring minimum assessment standards.
2. State Assistance and Supervision—The State should expand materially—both statutorially and with resources—its assistance and supervisory functions, including the testing and certification of eligibles for assessors and members of boards of review and equalization, conduct or coordination of mandatory schools and courses of training and conferences and publication of manuals and handbooks ; provision of appraisal assistance to local assessors, and specifying the valuation methods to be used. Although the State presently participates in some of these activities, expansion and systemization can improve local assessment materially.*
3. Difficult-To-Value Properties—For privately owned public utility companies and other types of large, complex,

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* See dissent by Dr. Leo Cohen, p. 170

difficult-to-value properties, the State should provide appraisal experts to recommend the dollar valuation for the property. Such recommendations should be public information. Such assistance by the State would be of great aid to local assessors in appraising highly complex properties. At the same time, final decisions on appraisals would rest with local assessors, to increase the probability that all property within a given assessment jurisdiction was treated "equally". By making State recommendations public information, local assessors would be less likely to ignore them.

4. Publication of Valuation Methods—Periodically, the State should publish a statement of valuation methods used in appraising property in Illinois. As with other data, this information could aid the taxpayer in determining whether or not his property has been accurately assessed.
5. Classification of Property—Any further classification of property should not be permitted. The 1970 Illinois Constitution allows for the classification of real estate in counties having a population of more than 200,000, subject to limitations prescribed by the General Assembly. We recommend that the General Assembly prohibit classification outside of Cook County. Classification of property brings numerous problems, particularly in terms of equity. If different types of property are to be assessed at different percentages of market value, which types should be assessed high? Which low? Why should one type be taxed more heavily than another? A particularly inequitable situation arises when a school district, for example, overlaps two counties, one of which classifies real estate, the other of which does not. Any further classification would simply compound the inequities.
6. Overlapping Tax Jurisdictions—In cases where a local taxing jurisdiction lies substantially in more than one

county, a special assessment equalization procedure should be established by the State. Although the State of Illinois equalizes the median assessment ratio among counties, houses in one county may have a different assessment ratio than those in another, if one of the two classifies property (officially or unofficially) and the other does not. With overlapping units of local government, taxpayers in different counties may be taxed at different effective rates by the same unit of government. In cases where a unit of local government substantially overlaps two or more counties, the State should certify a special equalization factor applicable solely to assessments within the overlapping government body, to be used only for purposes of applying the tax rate of the overlapping government.

7. Exempt Property—The law should be clarified as to the meaning and scope of exempt property. All exempt nongovernmental property should be valued and recorded. Every owner of presently exempt nongovernmental property should be required to reinstate this exempt status periodically through formal application to its county and to the State (a scheduling procedure would permit this to be carried out over a reasonable period of time). The exemption of property has seriously eroded the tax base in some areas. This recommendation would require not only a careful look at exemption policies but also an examination of each exempt parcel of property. The valuation of exempt nc .governmental property would reveal the magnitude of the loss in assessed valuation and tax revenue.
8. State Property Tax Board—A State property tax board should be created. Members should be appointed on a long-term, staggered basis by the Governor with the advice and consent of the Senate. Present equalization and other

property tax functions now performed by the State (other than appeals) and any new functions of a similar type would come under the jurisdiction of this board. The board would provide for continuing study of the property tax, possibly through an advisory committee. The goal of this recommendation is to remove State property tax functions insofar as possible from undesirable political pressures, and to ensure that studies concerning methods of improving the property tax are being carried out on a continuing basis.

ENDNOTES

1 R.G.F. Spitz and W.H. Heneberry, "Burden of Property Taxes on Illinois Agriculture," *Report of the Commission on Revenue*, State of Illinois, 1963, p. 500.

2 These studies, which are available upon request from the Bureau of the Budget, include: Richard Fryman, "The Strengths and Weaknesses of the Local Property Tax", "The Estimated Elasticity of the Illinois State-Local Tax System Under Various Revenue Alternatives for Financing Local Schools". Paul Boltz, "Report on Local Income Taxes", "The Statewide Property Tax". Ted Buenger, "The Transfer of the Sales and Income Tax Revenues of Local Governments to the State for Distribution as School Aid".

3 For example, see Frank V. Foulkes "Administration Leans to Value-Added Tax to Help Solve National Fiscal Crisis", *National Journal*, February 5, 1972.

4 Charles E. McClure, Jr., "VAT and Fiscal Federalism", *Proceedings at the 64th Annual Conference on Taxation of the National Tax Association*, 1972, pp. 279-292.

5 See, Advisory Commission on Intergovernmental Relations, *State-Local Finances and Suggested Legislations*, Washington, D.C., 1971, pp. 71-85.

A New Design:
Dynamics

THE PROPOSED FORMULA

The school aid formula has critical importance in the distribution of State funds for financing the schools. In Fiscal Year 1973, of the $1.2 billion allocated by the State for schools $802 million, or 66 percent, was distributed through the State aid formula.

Elsewhere in this report the considerable disparity that exists in the fiscal condition of school districts was documented. This disparity results for the heavy reliance on the local property tax for financing the schools and deficiencies of the school aid formula.

In our efforts to design a new formula, this Task Force has recognized as its major objective the Governor's charge: "First of all, the Task Force should identify means to eliminate disparities in school spending and tax burdens . . ."

Several premises underlie the work of the Task Force in defining a policy for the distribution formula for State aid to schools.

1. It is unlikely that additional funds in the amounts projected in Table 9 will be available exclusively for educational expenditures in the foreseeable future.* The State and its school districts are spending approximately $2.4 billion for current operating expenditures ($2.8 billion for all school expenditures) serving 2.4 million elementary and secondary students (an average of $1,000 per student). Raising average expenditures per student by 10% would require $240 million in additional spending. The recommendations of the Task Force are based primarily on redistribution of amounts currently available.**
2. It is not possible, with limited funds, to devise an equitable system that is painless. With unlimited funds, it would be possible to bring poor schools up to the level of expenditure of rich schools. With limited funds, making more funds available to poor schools would inevitably mean taking funds from taxpayers and school districts with higher incomes or wealth.

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* See dissent by Dr. G. Alan Hickrod, p. 171

** See dissent by Leonard Gardner, p. 171

We recognize the need to avoid subjecting any districts to drastic short-run changes in revenue.

3. All funds available in the State for financing education, whether from State sources such as income and sales tax or from local property tax sources, should be considered in the distribution system.
4. We wish to preserve maximum freedom for the family and for the local community and school district. To the extent feasible, the Task Force would like to leave the choice of expenditure and tax rate levels up to the local community and would like to permit the local school board to choose how it will allocate its resources to achieve the educational results it seeks. The Task Force would like to permit the individual family to have as much freedom of choice in the education of its children as can be provided.

The Task Force established a number of criteria by which alternative methods of distributing funds for the support of schools could be evaluated.

1. **Equity in taxation** – The system should work to eliminate wide disparities in tax burden between taxpayers in similar circumstances. Equal tax effort should produce equal revenue.
2. **Adequacy** – The system should distribute sufficient funds to provide a reasonable level of education for all children.
3. **Affordability** – The system should require funding within the financial capabilities of the State and its taxpayers.
4. **Equalization of access to educational opportunity** – The system should improve the access of each student to a decent education.
5. **Efficiency** – The system should help promote educational practices which provide the most favorable ratio between costs and the benefits to be derived. The system should not foster or preserve inefficient practices and organizations.

6. **Decentralization of decision-making** – The system should provide for a reasonable balance of decision-making power among the State, the educational profession, elected school officials, the local community, and the student and his family.
7. **Constitutionality** – The system must be consistent with both the Illinois and U.S. Constitutions.

The Task Force recommends a three-tier formula for the distribution of current operating funds for education. This formula is not intended to cover transportation, debt service, capital expenditures, or other non-current or non-operating expenditures.

Tier 1 should consist of a basic State grant given to all students, regardless of the district in which they reside, to ensure a minimum level of education.*

Tier 2 should consist of additional expenditures chosen by the local school district and equalized by the State so that school districts choosing equal tax effort will receive equal revenues per student (weighted). (School districts should be able to provide equalized expenditures of at least $1,000 per student under Tier 1 and Tier 2.)

Tier 3 should consist entirely of local efforts beyond Tier 1 and Tier 2. It would not be equalized by the State. Tier 3 would enable those districts that wish to spend amounts beyond those which the State considers necessary for a reasonable education (Tier 1 and Tier 2) to choose to do so if the district is willing to pay for it. Tier 3 tax and expenditure levels should be reviewed by the voters of the district at least every four years in order to reaffirm their willingness to continue spending at this level.

The Three-Tier Formula and certain of its associated aspects operate to meet the criteria we have established.

Equity in taxation

Tier 1 and Tier 2 work to provide equity. Equal tax effort will produce equal revenue anywhere in the State. No child or taxpayer will be penalized by living in a district with low assessed valuation of property.

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* See dissent by Olin Stratton, p. 172

Both student and taxpayer will be able to utilize the full tax resources of the State to achieve equity. Tier 3 retains some of the present inequities since wealthy districts will be more likely to afford Tier 3 taxing and spending. Tier 3 is included to preserve an element of local freedom. We believe that the advantages of local freedom outweigh the disadvantages of possible inequities that may arise from Tier 3.

Adequacy

Tier 1 and Tier 2 will provide sufficient funds for an education that is not only adequate, but satisfactory. A teacher whose salary is $13,750 and whose class size is 25 students generates on the average a per-student expenditure of $1,000. It may be debated whether or not the average teacher's salary should be higher or lower than $13,750 and it may be debated whether or not 25 students is an appropriate class load. However, the Task Force believes that a Tier 1 and Tier 2 expenditure level of $1,000 per weighted student should be adequate to provide a satisfactory education in Illinois.* Many districts will choose to spend less. Some will choose, through Tier 3, to spend more.

Affordability

An average expenditure of $1,000 per student for the 2.4 million public school students in Illinois will require $2.4 billion. This is the amount now being spent on current operating expenditures of public schools.

Equalization of access to educational opportunity

A number of factors can help equalize access to educational opportunity. Tier 1 and Tier 2 will make it possible for every district in the state to provide a satisfactory level of education. No student will be denied a good education because he happens to live in a community of low assessed value.

We recognize that poverty creates special barriers to educational opportunity. Therefore, additional weighting will be given in the

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* See dissent by Donald F. Eslick, p. 172

distribution formula to students whose families have incomes below $3,000 or who receive Aid to Dependent Children. This additional weighting for poor students will help both urban schools and rural schools with significant numbers of poor children to meet the special problems of providing educational opportunity.

Efficiency

Several aspects of the distribution system can help promote increased efficiency (as well as meeting other criteria). We recommend that the distribution of funds follow the student.

In simplified terms, this means that funds should be spent in the school attended by the student for whom funds are allocated. This does not happen now in many of our larger districts. In these districts, the money follows the teachers. If all of the most experienced and highest-paid teachers transfer to certain schools, expenditures for the students in those schools inevitably are the highest. The Task Force proposes a system in which in effect the money stays with the student. This will require that teachers and other instructional resources be allocated more equitably and will, of course, provide more equalization of educational opportunity. In addition, it will encourage more efficient use of the resources of the district.

Expenditures per weighted student should follow the Federal comparability standards which place a limitation on the variation in any attendance center from the average of the district except in special cases such as special education centers or vocational schools. School districts which permit expenditures per student in the various attendance centers to vary more than the established limit should be penalized by a reduction in the State grant.

*We recommend that school districts be required to prepare financial and educational reports for each attendance center.** These reports are to indicate expenditures per student and will also report on the educational activities and performance of the school. Such school-by-school reports will help to promote increased efficiency by giving citizens information needed to evaluate their schools. Many districts in the state now provide

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* See comment by Robert J. R. Follett, p. 165

such information. It is desirable that all districts do so.

Decentralization of Decision-Making

Tier 1 establishes the State's basic minimum support of education. Tier 2 continues a State role, but permits the local district to choose the level of educational expenditures it desires. Tier 3 permits even greater local district choice. The Task Force feels strongly that freedom of choice for individual families and students is also desirable. At present, most families have no direct choice as to the school their children will attend, unless they choose to send them to a nonpublic school. Some additional freedom of choice for families is desirable in providing better balance in decision-making and in helping promote educational progress through competition. Family freedom of choice, however, involves serious problems in regard to transportation and segregation. We do not believe that Illinois is ready for a voucher system or similar system providing complete freedom of choice.

We do believe that Illinois might well provide freedom of choice at the high school level. Here, students actually have choices to make — between various college preparatory and career-oriented programs. At high school, the problems of student transportation are significantly reduced, since parents are more willing to allow their older children to travel longer distances to school. Moreover, high school students are far more capable of evaluating alternatives and making wise choices. *Therefore, the Task Force recommends that students in selected areas be permitted to choose the high school they will attend, subject to reasonable regulations regarding space, transportation, and integration.*

A number of communities in Illinois already permit free choice of high schools by students within the district. Their experience indicates that most students choose to go to the high school closest to their home and that little difficulty is encountered in administering and operating such free choice programs at this level. We hope that this sytem of free choice will encourage neighboring high schools to cooperate in developing programs and to avoid duplication of expensive facilities, particularly in vocational programs. One school might offer a science-oriented college

preparatory program and a construction trades vocational program, while its neighbor offered a humanities-oriented college preparatory program and a commercial and business vocational program.

We believe that there is merit in pursuing the idea of freedom of choice at lower levels. *Therefore, we recommend that the State work with local school districts to establish pilot programs that would permit freedom of choice on some reasonable basis for the families of elementary school children.* These experiments (like experiments with the year-round school, individualized programs, and the like) will enable educational authorities to make rational decisions based on experience, not opinion.

Constitutionality

The committee believes its distribution system is constitutional. We feel that the Three-Tier Formula and its associated features meet all of the criteria we have established.

Alternative Approaches

One often-discussed alternative is State assumption of full responsibility for funding all educational expenditures. Full State assumption inevitably leads to state-wide teacher bargaining which the Task Force considers undesirable. Local bargaining in light of local conditions is much preferred.

The other primary alternative is some minor alternation of the present system. We do not believe that any alteration of the present system is likely to overcome the significant inequities that exist both in taxation and in access to equal educational opportunity.

Recommended Elements for the Three Tier Formula

1. **Weighting** ——At present, it costs more money per student to educate at the high school level than it does to educate at the elementary level. This is because high school teachers are generally paid more, and because they generally have smaller class loads than elementary teachers. (High schools also have expensive equipment and facilities, but this is only

a minor aspect of the cost differential). The current State formula gives a weighting of 1.25 to high school students. Previous weightings were 1.15 and 1.00.

Available research indicates that the most crucial years in human intellectual development are the early years. We believe that the interest of the State would be well served by encouraging greater focusing of resources upon children in kindergarten through grade 3. We do not believe that the interest of the State would be adversely affected by a slight increase in the class load of some high school teachers.

We recommend that increased weighting be given to students in kindergarten through grade 3. For purposes of example, the Task Force has used the following weights:

Kindergarten (1/2 day) —— 0.55
Grades 1 through 3 —— 1.10
Grades 4 through 8 —— 1.00
Grades 9 through 12 —— 1.25

We recommend that all students classified as disadvantaged receive a weighting factor of 1.25. This weighting should be multiplied by the weighting for grade level (e.g., in our examples, a disadvantaged first grade student would have a total weight of 1.375 —— 1.10 x 1.25).

There has been much discussion as to whether students should be counted on the basis of average daily membership (ADM) or average daily attendance (ADA). There are those who point out that most of the resources of a school must be assembled for the membership enrolled, not for the attendance on any specific day. There are those who believe that using ADA in the formula encourages schools to make extra efforts to overcome truancy. Since the disparity between ADA and ADM is greatest in school districts which have a high level of poverty, use of ADA results in lower amounts going to such districts and more to districts with less poverty. This would be offset by the weighting for the disadvantaged.

We recommend combining the two alternatives. *For kindergarten through grade 8, weighted average daily membership (WADM) should be*

used in the formula. For grades 9 through 12, the weighted average daily attendance (WADA) should be used. *

Some states are using the census count of children as a basis for school funding, as an alternative to the more common membership or attendance. *The Task Force recommends that this basis for counting children be investigated, so that future alterations in distribution can be considered in light of this additional alternative.*

The Three-Tier Formula should be introduced in a fiscal year that will permit adequate forward planning. This should be done soon enough to eliminate, as quickly as possible, the gross inequities that exist in the taxation and distribution of funds for schools. If there is a tax freeze, it should be thawed out in conjunction with the introduction of the new distribution and revenue systems.

Many specific proposals for fund distribution within the three tier formula were presented to the Task Force. Three such proposals are given below. Time did not permit the computer simulations which are necessary to determine the effect of proposals on each local district and upon the state as a whole. Using the premises, criteria, and the three tiers outlined by the Task Force it will be possible to devise a distribution system that will be a vast improvement over the present inequitable system.

Alternative Formulas

Three formula proposals which conform with the principles endorsed by the Task Force were submitted.** Their components follow:

Alternative 1:

Tier 1 is a State grant of $400 per weighted student.

Under Tier 2, a district may choose any level of expenditure per weighted student between $500 and $1,000 inclusively. Tier 2 requires that each district levy a minimum tax rate equal to the rate needed state-wide to provide $100 in revenue for each weighted student. This tax rate is estimated at a $0.57 per $100 of assessed valuation (AV). A district

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* See dissents by Robert Stickles and Charles Hindersman, p. 172-173

** See comment by Leonard Gardner, p. 165

which levies only the minimum tax rate can spend only $100 above Tier 1, a total of $500 per weighted student.

For every $100 per student above $500 that a district chooses to spend, it must increase its tax rate by $0.57. Therefore, if a district chooses to spend $1,000 per student, its tax rate will be $3.42 ($0.57 x 6).

Tier 3 is a local, non-equalized choice of tax effort expenditure. A district may elect to tax itself for Tier 3 expenditures after it has reached the full limit of Tier 2 expenditures and tax effort. A referendum of the voters is required to establish Tier 3 expenditures and tax effort. Tax and expenditure levels must be reconfirmed by the voters of the district not less often than once every four years.

Alternative 2:

Tier 1 is a guaranteed minimum expenditure level. Under Tier 2, the State guarantees the amount of money that a district's tax rate would produce if every 12-grade district had an assessed valuation of $42,000 per weighted pupil, if every K-8 district had an assessed valuation of $64,615 per weighted pupil, and if every 9-12 district had an assessed valuation of $120,000 per weighted pupil.

Maximum district tax rates would be $3.00 for 12-grade districts, $1.95 for K-8 districts and $1.05 for 9-12 districts. This maximum rate would produce $1,260 per weighted pupil and applies to the combined tax rates for all purposes except bonds and interest, rent fund, and transportation.

Tier 3. The question of additional revenues, totally locally raised, is to be resolved by the Legislature. A property tax rollback would be mandated for districts in excess of these rates.

Alternative 3:

Tier 1 is a guaranteed minimum expenditure level. Tier 2 is a power equalizing proposal with the following schedule.

Table 10
Proposed Schedule of Base Tax Rates and Expenditure Levels per Weighted Pupil

Expenditure Level Per Weighted Pupil	Base Tax Rates (Per $100 AV)
$1,250.00	$2.50
.	.
.	.
$1,000.00	$2.00
.	.
.	.
$ 750.00	$1.50
.	.
.	.
$ 540.00	$1.08

If a district selects a base tax rate of $1.50 per $100 AV, the State will provide an expenditure level of $750 per weighted pupil, regardless of the revenues raised from the local property tax. A district's movement to the maximum power equalized level of $1,250 would be phased in over a four-year period.

Under Tier 3, a district may elect to tax itself beyond the rate of $2.50, the maximum level for state equalization of expenditures. The amount of revenue generated by rates greater than $2.50 per $100 AV would depend entirely on the local tax base.

Table 11
Comparison of Proposed Formulas

	Alternative 1	Alternative 2	Alternative 3
Tier 1	$400 Flat Grant	No Flat Grant	No Flat Grant
Tier 2	Equalization to $1,000 per WADA*	Equalization to $1,260 per WADA*	Equalization to $1,250 per WADA*
Tier 3	Local leeway	Local leeway	Local leeway
Additional Cost	None	$660 Million	$600 Million
Time of Implementation	1 Year	4 Years	4 Years
Save Harmless	No	Yes	No
Weighting for Compensatory	Eligibles** x 1.25	.375 ($\frac{\text{percent in district}}{\text{percent in state}}$)	Title Eligible

* WADA is weighted student in average daily attendance.

** Eligibles as defined by the Task Force are those student whose family's annual income is less than $3,000 or whose family is on public welfare.

A Comparison of the Effects of Formula Alternatives on Selected Districts

District	1971-72 Current Formula	Alternative 1	Alternative 2	Alternative 3
Salt Creek (E.–DuPage)	$ 192,538	$ 443,200	$ 226,619*	$ 428,521
Westfield (E.–Clark)	48,074	72,400	60,480	66,978
Wood Dale (E.–DuPage)	576,443	583,200	745,110	779,788
Oak Park–R.F. (S.–Cook)	468,390	2,083,600	1,122,478*	1,547,179
Oak Lawn (S.–Cook)	678,175	1,372,800	1,122,706*	1,310,537
Peotone (U.–Will)	331,427	541,400	368,183	641,399
Chicago (U.–Cook)	191,303,016	226,011,600	238,365,041	349,045,403
Champaign (U.–Champ.)	3,796,558	4,447,600	4,324,367	6,451,201
Edwardsville (U.–Madison)	2,011,754	2,148,800	2,263,538	2,949,535

* Alternative 1 shows only the flat grant allocation of Tier 1. In Tier 2, each of the sample districts would raise more local revenue for a tax levy of $0.57/$100 A.V. than the $100 per pupil it would allowed to retain.

** Alternative 2 requires a property tax rollback of .0282, .1997, and .2070 respectively in these districts.

FINANCING EXPERIMENTATION

During its deliberations, the Task Force came to support the idea that,

> "To get better schooling for our children, we must find out how to strengthen our educational system. This will require study and especially . . . experimentation."[1]

In the following chapters we will suggest several areas where experimentation might prove useful. There is a great need, however, to extend experimentation beyond those specific boundaries.

Large-scale experimentation in public education has seldom been attempted or resulted in much success. Contributing to this failure has been the public's unwillingness to finance experimentation, in part because results do not seem to justify the expense. Intervention in educational programs for experimental purposes appears to be merely a prelude to full-scale innovation and may thus be potentially threatening to the public, which is at least familiar, if not satisfied, with the present school system.

Controlled, large-scale experimentation would give us far more information on how to improve education than do the frequent, arbitrary alterations in school programs which are now undertaken.* Since we have scarce resources to distribute, we need careful evaluation of new programs in order to strengthen or revise them, rather than haphazard innovation.**

As one of our members said early in our deliberations, "We as a State cannot back away from the need to engage in radical experimentation." Thus, we propose that the State devote a portion of its school budget to controlled experimentation in areas such as:

- New training and in-service programs for teachers.
- Use of out-of-school resources.
- School aid distribution

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* See dissent by William P. Cote, p. 173
** See comment by Robert J. R. Follett, p. 166

A Proposed Experiment

One alternative aid distribution system which the Task Force has discussed is a modified voucher system known as the *Education and Training Investment Program* (ETIP). We believe this program should be tested and evaluated over the next four years.

The program establishes an Education and Training Investment Fund financed by family contributions and State general revenues. Annual family contributions would be based on the family's economic circumstances and the number of children in the family under the age of 18. The State's contribution would be inversely related to family income or wealth. The two funding sources yield annually a specific student entitlement. In no case would a student's entitlements be less than the amount of his own family's annual contribution.

Each student would have access to the educational resources in the fund at various stages of his development. Thus, additional resources could be devoted to schooling prior to kindergarten, during the traditional elementary and secondary schooling process, or, after age 18, to purposes of higher education, vocational training, apprenticeship, or other forms of on-the-job training. If, instead of spending his entitlements, the student or his family chose to allow his entitlements to accumulate interest in the government account, his funds might be sufficient to finance a higher education from the B.A. through the Ph.D.

The opportunities afforded by the proposed plan are best illustrated by the following example:

For purposes of the Education and Training Investment Fund, the maximum taxable income per child is $10,000. The State tax rate is set at 3 percent. Thus, the maximum per child contribution by any family is $300. Similarly, the annual per-child entitlement equals $300. For purposes of the example, these parameters exist for the first 18 years of the program.

The Smith family's annual income is $6,000 and they have one child. With the 3 percent tax rate, the Smith family's annual contribution to the Investment Fund would be $180. The State would contribute the $120 balance to complete the $300 entitlement. At different stages in their

child's growth, the Smiths might choose from among the following or allow the entitlements to build up:

Age 3—expend up to $300 per year for preschool training.

Age 6—spend up to $300 per year for after-school training; join with other parents at the child's school to vote the use of entitlements for additions to the basic school program during grades 1 through 3.

Age 9 and Age 13—either spend up to $300 per year for individualized instruction outside the classroom or join with other parents at the child's school to vote the use of entitlements for additions to the basic program for grades 4 through 8 and 9 through 12.

Age 16—the Smith child may elect to drop out of school, but he could spend his entitlements on approved programs that would enable him to acquire a high school diploma or its equivalent.

Age 18—if the Smiths or their child chose not to spend any of the annual entitlements for their child's common schooling, the accumulated entitlements, at 6 percent interest per annum, would equal $9,300. The Smith child could draw on this amount for any approved education or job training program.

After Age 18—as long as a person maintains an unspent balance in his investment fund account, he could draw on the Fund to pay for education and training programs. An added feature might be that at some specified age, perhaps 25, the individual could obtain full use of his entire remaining entitlement.

If the Smiths were to move from the state, they could withdraw their child's accumulated entitlement from the Fund. Persons moving into the state could borrow against future entitlements.

In this example, the Smiths can, at various times in their child's development, choose to spend or not spend for educational purposes beyond the basic program. Through age 18, the maximum amount which may be drawn from the Fund would be an amount equal to the annual

entitlement. At age 18 and later, a student could draw against the remaining balance of his account to finance a variety of education and training programs.

Tier 2 of our proposed formula structure permits local districts to offer programs beyond the base level of Tier 1 and requires the State to participate in the additional cost up to a prescribed maximum. In the examples of Tier 2's possible design, one of two actions is required: If State spending does not increase, revenues are channelled from the wealthy school districts to help the poor districts; if local resources or costs are equalized, State spending must increase greatly.

The ETIP may avoid the need to choose between assisting poor districts through use of revenue from the wealthy districts or significantly increasing State aid so that no district is penalized. Unlike most school aid formulas, ETIP is based on variations in family wealth rather than differences in district wealth. Unlike a voucher system, ETIP can fit comfortably within the existing institutional setting. ETIP may lead to more responsive institutions, however, since it can be expected to:

- reduce the conflicts among our recommended funding criteria by making public funds available beyond the basic (Tier 1) program.
- provide funds on an equalized basis.
- give each local community choices in its education programs.
- increase individual family options.

ENDNOTES

[1] John P. Gilbert and S. Frederick Mosteller, "The Urgent Need for Experimentation" in *On Equality of Educational Opportunity* p. 371.

FINANCING THE EDUCATION OF THE DISADVANTAGED

The evidence is overwhelming: on the whole, children who grow up in poor families do much more poorly in school than children who grow up in wealthier families. They are more likely to drop out of high school, to fail to go to college, to fail to become employed. They are more likely to drain society's resources than to add to them. Clearly, it is in the interest of the State of Illinois to move poor children out of the poverty cycle.

One way--but by no means the only way--is to enable poor children to succeed in school. Efforts in this direction have been made by school districts for years. They began in earnest on a national level in 1965, with passage of the Elementary and Secondary Education Act. However, at this date, Illinois has made little fiscal effort to improve the education of disadvantaged children.

As the first step in a serious effort to address this issue, the Task Force posed four key questions. The answers to these questions provided the base from which we could make our recommendations. These questions were:

- Who are the students who are not performing well in school?
- Where are these students?
- What compensatory education programs seem to have worked?
- How can the State encourage such programs for those areas that need them the most and how does the Illinois educational system relate to other factors in the environment, especially employment opportunities?

Who Are They?

In the past, several attempts have been made to define "the disadvantaged student." The bases of these definitions fall into three broad categories: pupil achievement, socio-economic status, or economic level.

1) **Pupil Achievement:** the disadvantaged student is one who scores

below some standardized norm on general intelligence tests, criterion-referenced tests, standardized achievement tests, or teacher grades and essay examinations.[1] This definition avoids allusion to racial or social characteristics, which is desirable because these issues tend to produce distracting controversy.

The arguments against the use of standardized tests as a measure of pupil achievement are discussed in the section on educational performance evaluation.

2) **Socio-Economic Status:** the disadvantaged student is one whose home environment reflects low socio-economic status, as indicated by characteristics of family structure; occupational status of the father; presence of certain household items such as a dictionary, television, or automobile; and the education of the parents.

The arguments in favor of this definition are the following:

- The Coleman Report and subsequent reanalyses of the Coleman data have stressed connections between socio-economic status and achievement in school.
- We are investigating the effects of the environment on children, and the data used are good indicators of envirionmental handicaps.

Arguments against this definition are the following:

- The potential for misinterpretation and misunderstanding regarding the relationship between race and educational performance.
- The lack of complete and comprehensive data on important socio-economic factors for Illinois.

3) **Economic Level:** the disadvantaged student is one whose family's annual income is below a specified level.

The arguments in favor of this definition can be summarized as follows:

- The definition allows for discussion of important nonschool factors while avoiding any allusion to racial factors.
- The definition shares the assumptions made for the Federal Elementary and Secondary Education Act Title I Program. This allows for the use of available data on the presence of students eligible under Title I, by school districts.
- Other studies have reported a "chain of association" among the economic status of parents, educational tax base per pupil, expenditure per pupil, level of educational services, and educational achievement. In Maryland, for example, "in four of the five counties studied . . . the best *predictor* of low achievement in a school is the percentage of children from low income families in the school"[2] (emphasis added)

Arguments against this definition are the following:

- Data on income by attendance center are not available except for the City of Chicago.
- Available data fail to take into account the family size in considerations of economic disadvantage.

Proposed Definition

An economically disadvantaged student is one whose family's annual income is less than $3,000 or whose family is on public welfare.

Basing policy decisions upon a socio-economic definition of educational disadvantage would be unwise. The data at present are too unreliable, open to too many objections. The same can be said for basing policy decisions upon current assessment techniques.

Our position contrasts with the position taken by the Fleischmann Commission in New York. That commission believes that educational funding priorities in New York should be determined on the basis of the *outcomes* of education in the state as measured by performance evaluation measures such as test scores, dropout rates, and graduation patterns.[3]

Limiting the definition to economic disadvantage does not disclaim the effect of, for example, neighborhood environment; nor does this approach deny the efficacy of pupil achievement measures. But for policy purposes, an economic approach to determining who is disadvantaged appears to be the most reliable.

Where Are They?

On the basis of an economic definition of "disadvantaged," 65 percent of the total number of disadvantaged students are enrolled in seven large city school districts, out of the 1,140 school districts in 1971 in Illinois. An additional 7 percent of the total number of disadvantaged students are enrolled in 33 other school districts with enrollments larger than 2,500. This means that 72 percent of the total number of disadvantaged students in the state are enrolled in 40 school districts. The accompanying map illustrates the location of these 40 districts.

What Works?

In 1971, the U.S. Office of Education contracted with an independent research firm to review the results of over 400 compensatory programs. The main criteria of success were gains in pupil achievement as measured by varying standard tests of reading, mathematics, or other ability. Of these 400, only 17 were identified as successful. We studied 10 of the 17 programs: four were for kindergarten and/or pre-kindergarten children, three were for first through sixth grade pupils, one for junior high, one for high school, and one for all grades, elementary through high school. Several were bilingual in nature, emphasizing English as the language to be mastered. All were administered in areas with population exceeding 50,000, although many were aimed at specific communities or neighborhoods, and all were designed for economically disadvantaged children.[4]

Programs which work in one city or school may not necessarily work in another. These programs are considered successful in their areas; however, the following common elements are not necessarily the causes of the success, but may only be associated with the cause.

40 School Districts Concentrating 72% of Illinois' Economically Disadvantaged Students

Illustration 5

Of the ten programs:

1. All were designed to improve reading skills. The methods used to stimulate, encourage, or enhance ability varied, but greater ability to read was a goal of every program.
2. Five were remedial, five were preventive.
3. All provided individualized instruction for each child.
4. All worked with class sizes of fewer than 20 pupils or tried to work toward that level.
5. Most included in-service teacher training.
6. Most used teacher aides to some degree.
7. Few needed additional buildings for operation, although most held classes in special areas in a school building.
8. All had a program director who spent at least three-fourths of his time on the program. Many of the personnel were volunteers.
9. Size and per-pupil cost of each program varied too greatly for easy categorizing. The number of children served by each program ranged from 30 to 16,600, while the annual per-pupil cost ranged from $175 to $1,625 above the regular per-pupil expenditures.
10. Although the programs varied greatly in terms of number of children served, there appear to be no economies of scale from large operations. The smallest program, serving 30 children, cost $620 per pupil per year and the largest program, serving 16,600 pupils, cost $920 per pupil per year.
11. Almost all programs relied on nearby universities for evaluation. This may lead to the conclusion that these programs were successful merely because they had the expertise to provide better measures of success.

The evidence from a more recent and comprehensive review of "compensatory" education entitled *The Effectiveness of Compensatory Education: Summary and Review of the Evidence* is also useful. The Office of Education, at the request of the President, tried to decide "whether the net weight of the evidence allows us to conclude that

compensatory education programs can be made to help reasonable numbers of disadvantaged children to learn more effectively." Four conclusions were reached:

1. "No one piece of evidence is either sufficiently representative of national . . . programs or sufficiently definitive in its findings for policy-makers to make conclusions based upon it alone."
2. ". . . the drift of the (favorable) evidence seems to be unmistakable that compensatory education often enhances the achievement of poor children."
3. "The evidence indicating that . . . (compensatory education) has not worked is, we judge, sobering, but no overwhelming . . . ."
4. "The important difference between success and non-success appears to depend on whether . . . funds have been channelled into traditional patterns of expenditure —— salary increases, routine techniques —— or whether they have been used to develop supplementary, focused compensatory programs. The reason there is so much evidence of failure is that resources have more often been used in the former rather than the latter manner."

The evidence available from other states and the conclusions of the Office of Education provide a good background for understanding the situation in Illinois. Five people from representative areas of the state briefed us on what programs exist, how well they work, and why they work. One administrator, two principals, one teacher, and one district superintendent described the results of programs in their schools – some public, some nonpublic. In general, they described programs that contained most of the factors found in the Office of Education *Model Programs* and presented evidence that many "successful" programs are being operated and started in Illinois.

Three approaches to funding programs for disadvantaged students have been and are presently being used: ESEA Title I, ESEA Title III, and density add-ons to the State school aid formula. A fourth approach, State aid for compensatory programs, has been considered for several years, but

never implemented.

The Elementary and Secondary Education Act of 1965 under Title I, Assistance for Educationally Deprived Children, provides financial assistance to districts of high poverty concentration in order to meet the needs of all educationally deprived children. A school district establishes an *entitlement* for Title I funds on the basis of the number of low-income children residing in the district, but the programs financed by these grants are open to all students whose achievement levels fall below that "appropriate for children of their age," even if they are not poor.

In 1971-72, the Title I funds available in Illinois totaled $63,243,090. These funds were targeted for programs for 371,738 eligible students, who represented 15.7 percent of the 2,370,000 school children enrolled in Illinois schools in 1972.

The second program is ESEA Title III. The major differences between Title I and Title III funds are (1) Title III dollars are not earmarked specifically for students from low-income families, and (2) Title III funds are allocated within each state on the basis of program proposal merit, rather than entitlement. The objectives of Title III are to encourage the development of imaginative solutions to educational problems, to utilize research funds more effectively, and to make use of supplementary centers and services. The major restriction in the use of these funds is a ban on the purchase of property or construction of facilities. In 1971-72, Illinois received approximately $2,520,000 in Title III funds.

The third program is the density add-on factor. In recognition of an argument put forward by school districts in cities with highly concentrated populations that all school costs were higher there than in less concentrated areas, the Illinois General Assembly, in 1971, initiated the "density bonus" that is part of the State school aid formula. This add-on to the basic amounts of state funds allocated to each district is not specifically earmarked for expenditure on students from poor families. The add-on factor for 1971-72 for Chicago schools will allocate approximately $50 million to the Board of Education.

The fourth program is State Aid for Compensatory Education Programs. The State school code was amended in 1965 to provide State

aid to school districts for compensatory education programs, but since Title I funds became available in that year, no State funds have ever been granted under its authority. In that program, the definition of the disadvantaged student, unlike the definition adopted by this Task Force, is a very broad socio-economic one.

Of these four programs, the density add-on is the most controversial and warrants a brief digression. The density add-on is justified on the basis of the argument that costs of education are higher in high-density urban areas. However, a slightly different argument for allocating relatively more State funds to central cities is based on assumptions that we feel are not justifiable. Problems of education for the disadvantaged are often considered in conjunction with problems of urban education. One of these problems is popularly termed "municipal overburden," in which some communities, particularly central cities, are required to provide more costly noneducational services than do others. Consequently, these communities stand at a disadvantage because they force higher tax burdens on their residents.*

A typical statistical argument used to support this thesis is that only 32 percent of the expenditures of the largest central cities are devoted to education compared to 55 percent in their surrounding suburbs. According to this argument, central cities and other overburdened communities are unable to devote sufficient dollars to educational "needs" because of the demands placed on tax dollars for other "needed" services. The policy implication is that greater per-capita or per-pupil financial assistance should be given by the State and Federal governments to "overburdened" communities than to other communities.

We feel this conventional argument is oversimplified. Using it to justify special weighting for "overburdened" communities is conceptually ill-founded, even though it might lead to doing the right thing for the wrong reasons.

In Illinois, for example, there is currently no evidence to support the thesis that taxes paid by individuals in Chicago are generally greater than taxes paid by individuals elsewhere. The simple statement that a greater

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* See dissent by Norman J. Beatty, p. 173

proportion of local taxes is devoted to noneducational purposes in itself says nothing about comparative burdens. The research necessary to demonstrate that a person of given circumstances in one community pays more or less in taxes than a person in comparable circumstances elsewhere has not been performed. In fact, the term *comparable circumstances* itself defies definition. Comparisons of tax rates and assessment criteria yield results that are incomplete and inconclusive. This is particularly the case where rental property is involved and the private market determines the incidence of the burden.

We are *not* questioning the validity of the legal decisions made by the courts regarding the problem of fiscal disparity. Rather, we are asking whether the alleged inequity takes into account a complete view of the problem. No inequity can be said to exist when people are mobile, when they are free to move from one community to another unencumbered by wealth or institutional constraints such as land and housing regulations. The real problem is that many people are not mobile, particularly the poor, members of minorities, and the elderly.

Equalizing the per-pupil yield of two districts becomes absurd when the assumption behind equalization is that one middle income family living in a community with high tax rates and low quality services is disadvantaged relative to a similarly situated taxpayer living in a so-called advantaged community with low rates and a high level of services. The same question can be asked about endless other combinations of taxpayers. It is fundamentally *unanswerable*.

The absurdity underlying the use of grants to achieve greater "equity" among communities through correcting for municipal overburden is highlighted when one recognizes that this means taking money from some poorer persons outside of the "overburdened" community to ease the burden on some wealthy persons within that community.

Returning to the main discussion of compensatory programs, several

such programs exist in Illinois, but only some are successful. What future action should be taken? Will more spending make a difference?

We feel that additional State funds for disadvantaged students may be needed to improve the ability of children to acquire basic skills, not necessarily because more dollars will guarantee overall quality, but because the money, used as an incentive for abandoning those methods that fail, might help.

It should be pointed out that we do not know whether more money will make a difference in the effectiveness of schooling. The Coleman Report, the recent work of Christopher Jencks, and the Rand Corporation report all emphasize this.

At this point it is appropriate to note that perhaps the largest problem with our schools is that they are bureaucratic monopolies. There is little competition among schools and little responsiveness on the part of schools to pressures of competition. One of the great advances in public finance in recent decades has been the enactment of the Medicaid Program. Despite its problems of increased demand with little increased supply, the Medicaid Program has given the poor freedom of choice. They are no longer isolated in a second-class system of public hospitals but are able to secure health care in the same institutions as far wealthier individuals. Our school system needs that kind of a jolt. We need to break into the insulation provided this monopoly by introducing competition in order to make the system more responsive to the needs of all its users.

How Can the State Enhance The Development of the Disadvantaged Child?

School Assistance

There are four basic approaches to distributing aid to disadvantaged students:

1. **Strict Proposal System** – School districts or individual schools that serve disadvantaged pupils propose ways to use State aid to help those pupils. A State body reviews all proposals and funds those that it

finds most promising. It continues to fund those that show by their evaluations that they are meeting the pupil's needs.

The advantages of a strict proposal system are that it ensures that funds are used for those programs that the State considers desirable and allows local schools and districts to initiate program ideas. Its disadvantages are that it requires bureaucracies to review the content of the proposed program and could conceivably generate as many as 900 proposals, if districts could apply, or as many as 1,200 proposals, if schools with high concentrations of disadvantaged students could apply.

2. **Strict Entitlement System** – A factor for disadvantaged children is built into the formula for State aid to education: each school district in the state receives a certain amount of extra State money for every disadvantaged pupil it serves.

The advantages of such a system are that it requires no bureaucratic review of proposals and allows local districts to decide how the money should be used. Its disadvantages are that it may dilute available funds by spreading them too thinly among the districts and may permit districts to spend the money for programs that are not designed for the disadvantaged student.

3. **Combination Proposal and Entitlement System** – School districts are required to submit proposals to receive bonus State money for schools where the percentage of disadvantaged pupils is above a certain level. Those districts qualifying receive State money according to a formula for every disadvantaged pupil in schools where the percentage of disadvantaged pupils is above the level specified. This is similar to ESEA Title I funding.

4. **Incentive Systems** – Before receiving State funds, schools are required to determine the needs of disadvantaged children. Funds could be distributed initially on a proposal or an entitlement basis. After a pre-established time period, the schools are evaluated in terms of whether they have made progress in meeting the pre-determined needs of their disadvantaged pupils. Those schools that have made progress are rewarded with a greater share of State aid for disadvantaged pupils. The rewards might go to the school's staff.

The primary advantage of the system is that it provides financial incentives for teachers and administrators to improve the education of the disadvantaged pupil. Its disadvantages are the questionable use of standardized tests in measuring pupil achievement and the fact that wealthier districts might benefit disproportionately, since they could spend more local dollars per pupil for the disadvantaged than could poorer districts.

Employment

Employment and education are complementary goals. Expanding an individual's occupational choice is one of the primary objectives of education. At the same time, employment is a vehicle for education.

There are over 66,000 Illinois high school students whose annual family income is low enough to meet the criterion for being economically disadvantaged. Employment could provide valuable experience and supplementary income for these students.

Our analysis shows that employment opportunities in Illinois for disadvantaged youth between the ages of 16 and 21 are scarce. In Chicago, the rates of unemployment of both men and women in the 16 to 19 and 16 to 21 year old age categories (students and nonstudents who are seeking full or part-time employment) often exceeds 27 percent. This is especially distressing in view of the fact that the unemployment rate for all age groups was close to 4.5 percent. In Chicago, the unemployment rates of men and women in these same age and student categories seeking part-time employment often exceed 30 percent, which means that over 3,000 young, poor people are looking for part-time jobs but are unable to find them. We estimate that the downstate rates of unemployment in these categories range from 20 to 25 percent.

As a partial solution to the unemployment problem, we propose a part-time job program for disadvantaged youth. The students in the program would attend a secondary school part of the school day and work in a public agency for the remainder of the day.

The program is predicated on the belief that nonschool factors may be as important to a child's development as formal schooling.

Employment during school years can help encourage a student's sense of independence and self-worth. Part-time employment for high school students can provide valuable employment histories. If students from families receiving public assistance are provided jobs, the use of welfare funds as part of the wage paid the student is probably a more productive use of public funds for the State and the student than the payment of those funds as public assistance grants.

This program, which resembles a program currently providing public service jobs for adults in Illinois, can be implemented in four stages:

- Locate students whose families are receiving Aid to Families with Dependent Children or General Assistance.
- Identify the jobs available in local and State agencies, possibly including schools.
- Hire the students through the schools, a community agency, or the State Employment Service.
- Pay the students a monthly wage from a pool that includes the welfare funds and other State or Federal funds.

Conclusions and Recommendations

The four problems we posed at the beginning of this chapter cannot be solved by mere recognition of the following. However, solutions may be closer if future programs are designed with these conclusions in mind.

- Family income is the most reliable and accessible indication of being disadvantaged.
- Disadvantaged pupils are highly concentrated in a small number of school districts.
- "Compensatory" education has worked in many cases, but too few programs succeed.
- State and Federal aid do not provide sufficient incentives for abandoning programs that do not succeed.
- The various methods of distributing funds have almost equal merits and faults.

High unemployment among 16 to 21 year old students handicap educational progress.

We recommend that:

1) The following definition be accepted: **An economically disadvantaged student is one whose family's annual income is less than $3,000 or whose family is on public welfare.**

2) **Of four possible funding methods —— proposal, entitlement, combined proposal and entitlement, and incentive systems — we prefer the proposal approach. An entitlement system similar to the ESEA Title I funding mechanism would simply create an add-on to the current Federal program. Since approximately $12 million will be available to Illinois in the fiscal year ending June, 1974, we recommend that:**

a) **Eligible local education authorities, individually or in groups, should be encouraged to organize projects, not eligible for Title I ESEA funding, which will have the primary purpose of helping their pupils break out of the cycle of poverty in which they are locked by reason of their socio-economic condition.**

b) **Public school funds for these projects should be administered by the State Board of Education, which should be empowered to establish appropriate criteria for making the awards and for evaluating their results.**

c) **Guidelines established for these programs should:**

1. Require proposed projects to demonstrate that there is a high concentration of economically disadvantaged children residing in the school attendance areas that will be part of the project.

2. Guarantee funding for each school for a predetermined time period, for example, 1 year, 2 years, or 3 years.

3. Require that decisions concerning the way to use the funds for a school's program be planned jointly by the administration, teachers, and parents from that school, with technical assistance and approval by the district board. The State board should provide technical assistance to school districts that request it.

4. Establish an evaluation system to determine, after the initial operating period, whether the programs in each school improved the capabilities of the students; such a system should evaluate the progress of pupils through measures of reading ability, numerical ability, and attendance and other measures based on the school's assessment of pupil needs. The evaluation should compare the performance of individual pupils at the end of each school year with the performance of those same pupils at the beginning of the year.

5. If the evaluation by the State Board of Education indicates that the school or schools have not improved the capabilities of the students, require that projects and project proposals be restructured before they are re-funded.

d) At least 1 percent of the State's expenditure on common schools should be devoted to these projects. At present, that guideline could lead to appropriations of approximately $12 million in Fiscal Year 1974. This State contribution should be in addition to a similar 1 percent effort on the part of the local districts.

3) The State should not restrict its concerns for disadvantaged students to their formal education needs. It should support specific experimental programs that may focus on areas not directly related to schools. Among the needs which have been identified are:

- Employment.
- Psychological services.
- Educational services for economically disadvantaged children who are of pre-kindergarten age.

4) Due to the excessively high rate of unemployment of economically disadvantaged youth in Illinois, and recognizing that schools provide only part of the important contributions to a child's development, an experimental program to provide part-time public service jobs with local and State agencies, including schools, for youth 16 to 20 years old

should be established. The program should be for youths who are members of families receiving Aid to Families with Dependent Children or General Assistance, and should provide employment for those youth who remain in secondary schools, even if attendance is for only part of each school day. The program should be a year-round program. Consideration should also be given to establishment of a program of this type for students from families not receiving public assistance.

5) Since data on disadvantaged students are currently available only on the basis of school districts, and since data by school attendance center are needed to more clearly identify those places in Illinois where disadvantaged students reside, a data system providing family income and other socio-economic data by individual attendance center should be developed.

6) As part of the program for improving the ability of children to acquire basic skills, Illinois should continue to urge funding of ESEA Titles I and III.

7) A formula which recognizes the additional operational cost for schools having disadvantaged pupils should be part of any general aid formula. These additional funds should be appropriated on an unrestricted-use basis. (Such a formula was specifically treated in our Recommendations for the Three Tier Formula).

ENDNOTES

[1] A report by the Rand Corporation, entitled *How Effective is Schooling?,* provides the background for developing this position. The report is a review of the state-of-the-art for measuring educational effectiveness, including an analysis of the relationship of educational resources to achievement.

[2] Taken from the report of the Maryland Commission of Financing, Governance, and Evaluation of Public Schools.

[3] *Report of the New York Commission on the Quality, Cost and Financing of Elementary and Secondary Education,* 1972, p. 1. 28.

[4] Descriptions of successful programs are presented in the *Model Programs* available from the U.S. Government Printing Office.

FINANCING SCHOOL CONSTRUCTION

This year, elementary and secondary school pupils in Illinois attended over 6,000 public schools. The facilities for these schools vary greatly in type, age and quality. Classrooms may either be fixed or demountable. Pupils, especially those in areas of recent population growth, may be found in modern, open surroundings or in closed, cramped quarters as in Chicago where one third of the school buildings are more than 60 years old. Although most facilities may be generally adequate, as many as 65 percent of the state's school buildings in some respect fail to meet life safety code standards.

Expenditures on school facilities are a major demand on school district resources. From 1966 to 1970, an average of $173 million was spent annually for land acquisition, new buildings and improvements. Of the total $867 million spent during this five-year period, 71 percent was funded through local district bonds, with the balance financed out of current revenues.

The expected demand over the next five years is equally staggering. Although precise estimates cannot be made, given the lack of good data, the Task Force projects local districts' demands for new schools to be $200 million to $250 million annually.

We recognize that revised factors may dampen this future demand. First, many local districts in Illinois are interested in increasing their utilization of existing facilities through adoption of the twelve-month school year, an approach perhaps best exemplified by Valley View District No. 96. Second, school boards in a number of localities are considering the use of available, non-school structures which, with relatively little effort, may be made suitable for educational purposes. Third, an increased local awareness of the potential economies in such innovative construction techniques as systems building may limit future expenditures for schools. Finally, the projected decline in total pupil enrollments indicates that many districts will be faced only with the need to reallocate existing facilities. Similarly, in many districts future investment will be in temporary or demountable facilities which may themselves be reallocable

according to intradistrict changes in enrollment.

Several pressures, however, will sustain at least a large share of the estimated demand. While total enrollments decline, the continued growth of most metropolitan areas as well as changes in the composition of enrollments (decreases in elementary grades but increases at the high school level) will create significant facilities needs in many local districts. Moreover, in localities where existing facilities require major repair or rehabilitation, school districts will view the approaching period of stable or declining enrollments as an opportunity to devote funds to the upgrading of the current stock of buildings.

The Task Force emphasizes that the state and local school districts must take every advantage of opportunities to limit this drain on the dollars available for education. Also necessary is considerable rethinking of the kinds of facilities which will best serve future education needs. But, at the same time, we recognize that a requirement for new or rehabilitated schools, whatever their shape, will continue to exist. Effective education is unlikely to occur in inadequate facilities.

Early in our deliberations, the Task Force concluded that some form of State financial assistance for school construction would be desirable. As described in the discussion below, current state participation in school building is extremely limited. Practically all construction is financed by local school district property taxes. State aid for this purpose would lessen local district dependence on the property tax. We also determined that the same interdistrict disparities in local district resources which strongly influence the level of operating expenditures also affect a district's ability to finance capital projects. Thus, we decided that any state aid for school building should be provided in a manner designed to reduce the gross disparities in local resources.

To develop a financing plan suitable for Illinois we began by examining the current methods used to finance school building in the state. We then turned our attention to alternative approaches which have been suggested or implemented in other states. Our recommendations outline a plan which would best meet the school construction needs in Illinois.

Capital Finance for Schools in Illinois

School districts in Illinois normally issue bonds to finance new construction. Only the Chicago school district is permitted to use its building fund tax levy for new construction. The only other local governmental units that issue bonds for school facilities in Illinois are local public building commissions.

In general, the board of any school district, after voter approval of a referendum, may issue general obligation bonds for building or improving school buildings or for purchasing or improving sites. General obligation bonds are backed by the full faith and credit of the taxing body issuing the bonds.

Although Illinois ranks eighth in the nation in terms of total bond sales for school construction in the past ten years, the number of new school district bond issues has been decreasing in the last few years, from 134 in 1966 to 93 in 1971, while the average size of these issues has been increasing. This Illinois situation of increasing dollar amounts of bond issues and decreasing number of new bond issues is comparable to the national trend of school bond sales. Rising interest rates and voter resistence to increased taxes have kept many district out of the bond market.

In 1955, the Illinois General Assembly provided for the creation of public building commissions. The purpose of this legislation was to make possible the construction, acquisition, and enlargement of buildings for local government use.

The public building commission is empowered to borrow money by issuing revenue bonds in such amounts as its board may determine, based on the cost of the building plus interest charges. Such debt does not fall within the constitutional debt limit of the local government. The commission constructs buildings with the bond proceeds and then leases them to counties, county seats, or municipalities. The local government must levy a direct annual tax sufficient to pay annual rent as it comes due.

On the average, a public building commission bond issue pays ½ of 1 percent more in net interest costs than a long-term local Illinois general obligation issue. By debt financing for school facilities through a public

building commission, local officials avoid the legal restrictions commonly associated with debt financing, including the requirement for a voter referendum and constraint of the debt limit. Not only is this form of financing more expensive than the conventional form, it removes the financial responsibility for school construction from the citizens of the community.

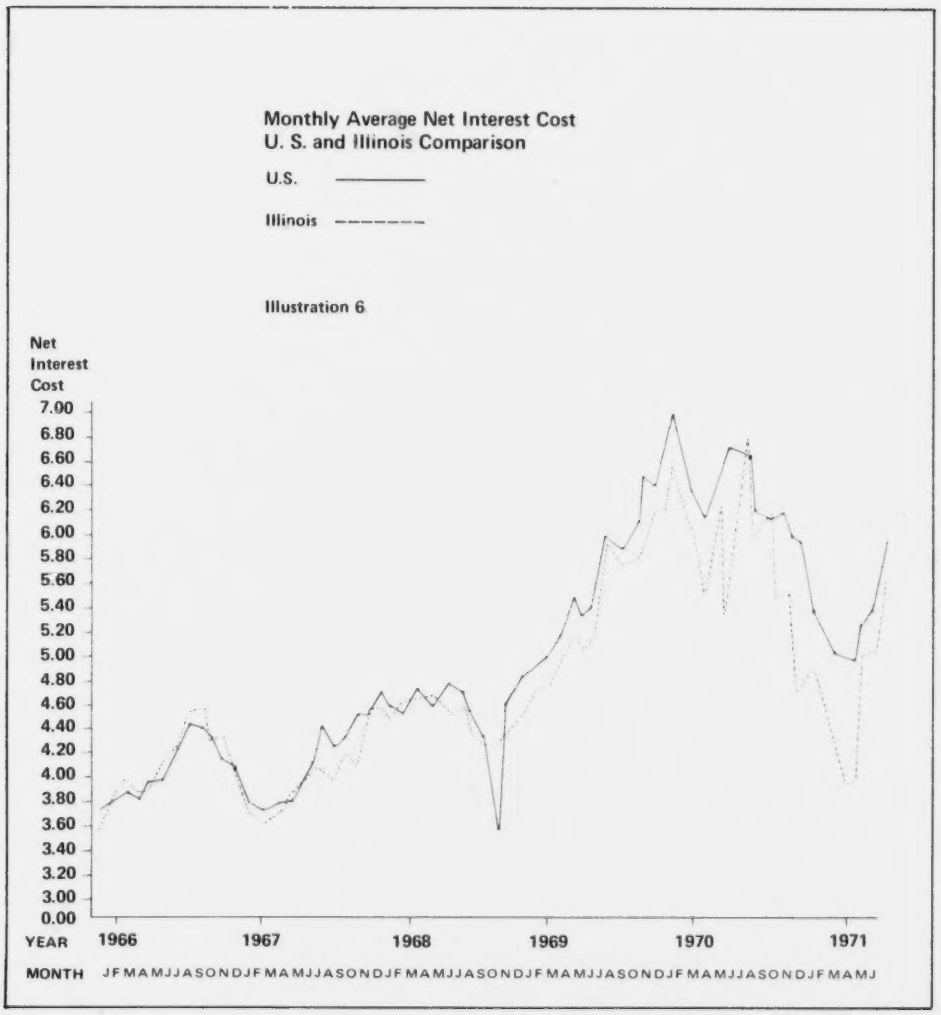
Illinois School Bonds

Local school districts, both in Illinois and nationally, are not using debt financing for school construction to the extent that they have in the past. Assuming that the demand for school construction and/or rehabilitation did not decrease, the Task Force reviewed the following possible reasons for the decline in debt financing: difficulties in marketing bonds at reasonable interest rates and the obstacles created by referenda requirements, limits on debt, or limits on interest rates.

In Illinois, most school district bond issues are less than $1 million. Despite their small size, Illinois school bond issues compete reasonably well in the bond market because of their high ratings. In 1971, 85 percent of the total dollar volume of new school bond issues in Illinois were rated either Aa or A.

Illinois school districts fared well in the market relative to other Illinois local issuers when compared with the monthly low of the *Bond Buyer* 11-bond index for 1970 and 1971. General obligation bonds of Illinois school districts and other local governments with 9 to 16-year average maturities can be compared against the monthly low of this index. For both 1970 and 1971, Illinois school district issuers paid, on the average, 14 basis points less than other local government issuers.

It is also revealing to compare the monthly average net interest cost of all new school bond issues in the United States with the monthly average net interest cost paid by Illinois school districts. As can be seen in Illustration 6, for the period of January, 1966-June, 1971, Illinois school districts paid, on the average, 23 basis points less than the national average. During 1970 and the first six months of 1971, the average difference was 52 basis points, almost twice the average for the five and


Monthly Average Net Interest Cost
U. S. and Illinois Comparison
U.S.
Illinois
Illustration 6
Net
Interest
Cost
7.00
6.80
6.60
6.40
6.20
6.00
5.80
5.60
5.40
5.20
5.00
4.80
4.60
4.40
4.20
4.00
3.80
3.60
3.40
3.20
3.00
0.00
YEAR
1966
1967
1968
1969
1970
1971
MONTH
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J

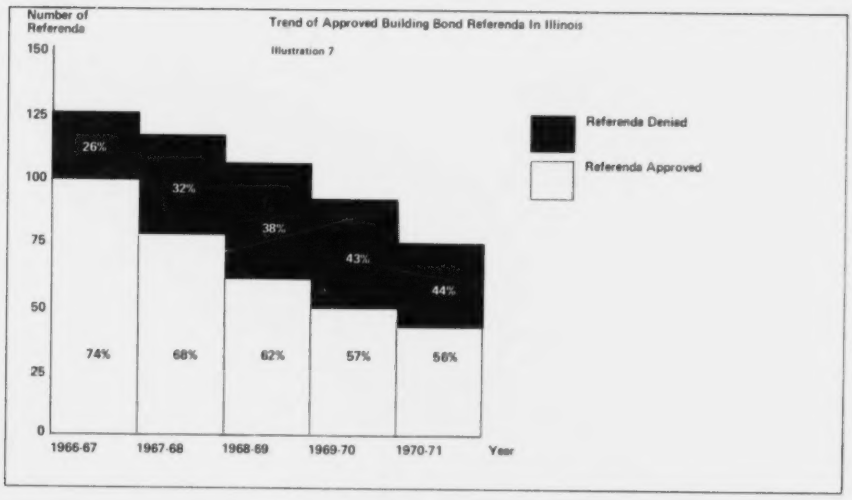
one-half years. Low interest costs paid by Illinois school districts are probably due to the strong local bond dealer network. Chicago banks generally bid on issues from the northern half of the state, while St. Louis banks bid on issues of communities in southern Illinois.

Illinois school district bond issues generally carry higher ratings than other local government issues. Considering that school districts are able to market their bonds at interest costs lower than both other Illinois local issuers and the average school district in the United States, the Task Force concluded that monetary problems are not the major cause of declining school construction activity in Illinois.

Voter referenda are required in Illinois before a school district can levy a tax to pay for the retirement of school construction bonds. These referenda have become increasingly difficult to pass and are a major obstacle to local school debt financing. In 1971, United States voters defeated 35 percent of proposed bond issues. The issues defeated were the larger issues proposed, since the 35 percent rejected represented 65 percent of the total dollar amount proposed. The attitudes of voters changed significantly from 1970 to 1971. In 1970 voters defeated only 37 percent of the total dollar amounts proposed. In 1971, 44 percent of proposed school bond issues were defeated. Illustration 7 shows the trend of approved school bond referenda from 1967 through 1971.

To avoid the debt restrictions of the 1870 Illinois State Constitution, the Illinois School Building Commission was created to enable school districts that had reached their debt limit to borrow for needed school construction. The Commission lent interest-free money from current State operations to school districts for approved construction projects. The major drawbacks to this approach were that:

- Construction was being financed from a school district's current revenues, increasing the cost to taxpayers.
- Most Commission loans went to rapidly growing communities in which increases in pupil enrollments temporarily outpaced additions to assessed valuations. As a growing district's property values rose, many of these same districts which were receiving Commission loans regained the ability to debt finance new facilities.


Number of Referenda
Trend of Approved Building Bond Referenda In Illinois
Illustration 7
150
125
100
75
50
25
0
26%
32%
38%
43%
44%
74%
68%
62%
57%
56%
Referenda Denied
Referenda Approved
1966-67
1967-68
1968-69
1969-70
1970-71
Year

Nevertheless, the Task Force recognized that school construction financed and managed by the School Building Commission cost as much as 25 percent less than facilities built by local districts. In 1972, the School Building Commission was made a part of the Illinois Capital Development Board.

The Task Force decided that limits on debt and voter resistance to new bond issues were far more formidable obstacles to local district school construction than were problems in marketing bonds. With these facts in mind, we studied six possible mechanisms for State aid. We feel that three of these are appropriate for Illinois. The three that are least appropriate are the following:

Schoolhouse Leasing Arrangements—The State Legislature creates a building authority which is a public corporation to acquire sites, construct school buildings, issue bonds, and receive appropriations to obtain capital. Prior to construction, the school building plans must be approved by the corporation. The authority leases the completed building to the school district; rents are used to pay the principal and interest on the bonds of the authority. The bonds are tax-exempt, but debts of the authority are not debts of the State. This type of financing can be done through a vehicle other than a specifically created State agency and is handled that way in several states.

Special Funding Measures—Special Funds from varying sources are devoted solely or partially to school construction. In Rhode Island, the sources are duties paid by auctioneers and State funds forfeited by towns. In Nevada, the county school district fund is maintained through taxes and grants. The motor vehicle tax fund in Florida is used to pay bond indebtedness.

State Loan Program—The State lends money to school districts for school construction or payment of principal and interest on school bonds.

Generally, the loan is made directly by the State or from a special fund established by the State for this purpose alone. The sources of the funds are usually composed of properties of the State granted to the fund by the Legislature.

These programs were deemed unsuitable for Illinois either because they would provide inadequate resources, involve costly financing measures, or avoid the issue of voter resistance to bond referenda.

Three proposed approaches which were considered more appropriate for Illinois are:

State Bond Bank—The bond bank buys small individual issues of several local governments, including school districts, and then sells one issue sufficient to pay for these small issues and sets aside a certain sum as a debt reserve. The bond bank solves the problems which local governments incur in marketing their bonds through packaging small issues and providing supplemental security. By pooling a number of small issues, local governments have access to the national market at a much lower rate of interest. The small governmental units that market bond issues of less than $1,000,000 would be the primary beneficiaries of the establishment of a bond bank. Since the bond bank would require the Governor to request that the General Assembly "appropriate annually such sums as may be necessary to meet deficiencies in the required debt reserve and other reserve accounts," it would provide a degree of diversification backing for the bonds that a single small community cannot provide. Its bonds would have good ratings.

Substantial savings in administrative costs would be realized. The cost of marketing an issue does not decrease with reductions in the size of the issue. In Illinois, one municipality paid approximately 8/10 of 1 percent of the total value of an issue of $1,000,000 for administrative costs, whereas the State paid less than 1/10 of 1 percent for administrative costs on its transportation bond issue of $150,000,000.

The primary advantage of a State bond bank is that it would reduce interest costs for local governments. Its disadvantages are that it does not affect the legal restrictions such as debt limits, voter referenda, and

maximum interest rates and can have a potentially adverse effect on a State's credit rating. No particular advantage is given to the school districts with the greatest need, and it does not provide for control over the type and cost of construction. Thus, it might encourage unnecessary capital expenditures.

Since most Illinois local governments are well-rated and are marketing their bonds at very low rates of interest, an Illinois bond bank would most likely appeal to the low-rated and nonrated issuers in Illinois. Such issuers might not represent the majority of local issuers, as has been the case in Vermont. If an Illinois bond bank issue represented primarily the low-rated and nonrated Illinois issuers, the interest cost might not be as low as expected, despite the "moral obligation" backing of the State.

Total State Financing—The State assumes the full costs of public school construction and school capital improvements. Hawaii pays for all educational costs, including construction. In 1971, Maryland set up a Board of Public Works to establish standards and regulations. All projects approved by the Board are funded by the State, up to 100 percent, exclusive of the cost of acquiring land. In matters of school capital construction, the Board prevails and preempts the authority of all other units (State Board of Education, State Superintendent of Schools, county governments, Baltimore city governments, local boards of education, and all other state or local governmental agencies).

In formulating the rules and regulations, however, the Board of Public Works must consult with representatives of the Boards of Education of the local districts. The goal is to provide for maximum exercise of local initiative but still ensure proper operation of the statute and prudent expenditure of State funds. The statute thus provides local voice, but State control.

Total State financing relieves the school district of the burden of building schools, removes the importance of the debt limits and voter referenda, making unnecessary all the expensive and complicated vehicles used to get around these restrictions, and makes the actual cost of education more highly visible because costs are less fragmented and

hidden. Total State financing would probably encourage unification of the school districts and provide supervision and control of construction.

However, total State financing does have certain drawbacks. School districts may feel the amounts they are receiving are inadequate and fear a loss of control. Red tape might delay construction. The debt limit of the State might also prohibit adequate construction.

Partial State Grants—Appropriations are made by the state for grants to local districts for purposes of defraying the costs of new school construction. Because local districts participate in the financing of projects, board and taxpayer approval are required. Partial state grant systems benefit local school districts by reducing their expenses for school construction. Although state aid is limited, the program enables the state to provide financial incentives to local districts for the achievement of state goals.

The Task Force believes that a system of partial state grants for school construction would be most appropriate for Illinois. Under the 1970 Illinois Constitution the General Assembly may authorize issuance of state general obligation bonds. This method of financing capital projects spreads project costs over the life of the project and requires that future as well as present beneficiaries of a project share in its cost. The State of Illinois is now utilizing its general obligation bonding authority to finance transportation, pollution control, higher education, conservation, mental health and corrections projects. We believe that the construction of schools should be put high on the list of state priorities for use of general obligation bond resources.

A system of partial grants offers the state the opportunity to do so. Such a program should be designed to assist most those local districts with the least local resources. Finally, we believe a joint state-local program for financing and managing school construction would permit districts to achieve the same economies which the Illinois School Building Commission has experienced with its projects.

Conclusions and Recommendations*

The State of Illinois should assist school districts in providing their students with school buildings. Estimates of Illinois school construction demand based on data of school building bonds issued in the last few years, knowledge of substantial bond referenda defeats, Chicago rehabilitation bond issues, and figures on recent expenditures for site acquistion, new building, and improvement, indicate that approximately $125 million to $150 million in bonds will be issued by downstate districts for school building purposes in the next few years. In Chicago, $250 million is currently authorized for rehabilitation and the City plans to issue bonds at a rate of $50 million a year.

Those school districts which had over $100 million of bond referenda defeated in the 1970-71 school year would probably be among the first to apply for State assistance. Since recent expenditures for site acquisition, new building, and improvements, excluding replacement of equipment, have not exceeded $200 million to $250 million a year, the downstate demand plus Chicago rehabilitation spending will probably not greatly exceed recent spending. The $75 million authorized for this program for new construction in the first year will cover about one-third of estimated school construction costs in the state.

We believe that State assistance should be extended not only for new construction, but also for debt service on bonds sold during the recent high-interest rate years. We recommend that:

> **The State of Illinois provide financial assistance to school districts for new construction, major reconstruction, and debt service (principal and interest) associated with past debt incurred within a reasonable period of time.**

State assistance should be based on ability-to-pay criteria to avoid the consequences of a flat fixed-percentage grant which favors the wealthier districts in other state partial grant programs. We recommend that:

> **State financial assistance be provided in the form of a grant for new construction, major rehabilitation, and past debt service.**

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* See dissent by Norman J. Beatty, p. 174

The percentage rates of State grants should vary and the amount of the grant should be determined by the State's assessment of each school district's ability to pay. Ability-to-pay criteria should be specified in the law and State assistance should be directly related to these criteria and specified as such in the law. Ability-to-pay criteria should be refined as rapidly as possible to include more than one index and should take into account both growing communities and communities of insufficient wealth. Currently, the only available criterion is assessed valuation per pupil. We strongly urge immediate study of other possible indices for inclusion in the ability-to-pay criteria. Possible indices might include a weighted income per capita figure or a measure of local tax effort such as local tax dollars per pupil in a school district.

Cost and construction standards are important for effective and efficient use of State funds. We recommend that:

The Capital Development Board assume the responsibility for the final approval of school construction projects for which State financial assistance is desired. School districts should present educational specifications in terms of the educational program for their community to be reviewed by OSPI and the Capital Development Board. The Board should provide consultative services to school districts in all designing stages of the project. Cost and design limitations used by the Capital Development Board should realistically reflect area differentials in building costs.

Sufficient State resources should be devoted to school construction to meet a substantial part of the need. We recommend that:

Approximately $100 million annually of the State's new bonded indebtedness be allocated to this program. In the first year, it is estimated that $25 million will be used to pay debt service payments for debt incurred since January 1, 1969. Thus, $75 million remains for new construction and major reconstruction. In light of this limitation, the State should

establish a priority for the release of State monies, which should be based on the State's determination of need. In order to evaluate local school district need, OSPI, in conjunction with the Capital Development Board, should develop guidelines that will provide the Board with the criteria needed for approving projects. The guidelines should encourage an efficient allocation of school resources and future school district reorganization. If a first-come, first-served criterion is used, it should be based on the date of passage of the local referendum.

Any system of partial state assistance for local school construction should include a voter referendum requirement to allow local control combined with State financing. We recommend that:

In those cases where the local share of the costs of new construction are such as to require that the school district issue bonds, the project must be presented to the local citizens for approval by referendum where required.

FINANCING SPECIAL EDUCATION

Special Education in Illinois

Until 1969, Illinois was permissive in providing special education programs. The School Code had been revised to require that each local district "devise and recommend a comprehensive plan for the education of handicapped children resident therein prior to July 1, 1969." Categories of handicapped to be served as defined in the statutes include:

Physically Handicapped
Maladjusted
Learning Disabled
Educable Mentally Handicapped
Trainable Mentally Handicapped
Speech Defective
Multiply Handicapped

In practice, OSPI definitions specified in the *Rules and Regulations* govern classification of handicapped children.

Estimated Populations

In the light of the infrequent occurrence of some types of handicaps, individual school districts can hardly be expected to provide a complete range of services for handicapped children. Thus, school districts are empowered to form special education cooperative agreements to pool resources for education of the handicapped. In 1970-71, the 62 "joint agreements" in operation covered most school districts in Illinois.

Estimates on the frequency of occurrence of handicaps vary widely. Some of the incidence rates compiled by Rossmiller, Hale, and Frohreich for their 1970 study under the National Education Finance Project[1] are shown in Table 13, together with the estimates used by the Task Force.

Table 13
Estimates of the Prevalence of Various Types of Handicaps

Category	Estimated Prevalence (%) I[a]	II[b]	III[c]
Educable Mentally Handicapped	1.3	4.0	2.0
Trainable Mentally Handicapped	.24	.3	.25
Auditorily Handicapped	.10	2.0	.1
Visually Handicapped	.05	.25	.1
Speech Handicapped	3.6	7.8	5.0
Physically Handicapped	.21	1.0	.2
Learning Disabled	1.12	2.0	1.0
Behaviorally Handicapped	2.00	2.2	2.0
Multiply Handicapped	.07	NE	.05
Home/Hospital Care			.25
TOTAL	8.69	19.55	10.95

N.E. – No estimate

a. Estimates used by Rossmiller *et al* for the NEFP study.

b. Liberal estimates compiled by Rossmiller *et al* from U.S. Office of Education data.

c. Estimates used by the Task Force. These do not include students served only by school social workers or psychologists who are not in special educational programs.

Source: Estimates from Columns I and II from Richard A. Rossmiller, "Resource Configurations and Costs in Educational Programs for Exceptional Children" in National Educational Finance Project, vol. 3, p. 61.
Column III: Adapted from OSPI *Special Education – Guidelines for County Advisory Committees,* 1965, p. 7.

Actual and potential enrollments in special education programs for 1970-71 are compared in Table 14 and shown in Illustration 8. It should be noted that the small numbers of unserved eligible children with some handicaps may, in fact, represent a more serious neglect than the large numbers of unserved eligibles with other, less severe, handicaps.

Potential and Actual Enrollment In Special Education In Illinois by Program, 1971

Illustration 8

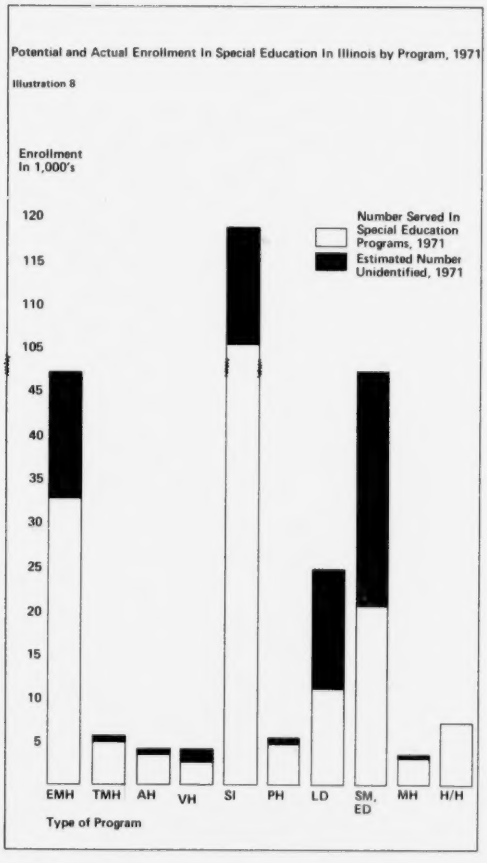


Table 14
Actual and Potential Enrollment in Special Education Programs, 1970-71

Category of Handicap	Number Served 1970-71[b]	Potential Special Education Population[c] 1970-71	Percent of Potential Served, 1970-71
Educable Mentally Handicapped	31,197	47,056	66.3%
Trainable Mentally Handicapped	5,188	5,882	88.2
Auditorily Handicapped	2,205	2,353	93.7
Visually Handicapped	1,344	2,353	57.1
Speech Handicapped	105,743	117,639	89.9
Physically Handicapped	4,438	4,706	94.3
Learning Disabled	10,392	23,523	44.2
Behaviorally Handicapped[a]	18,845	47,056	40.0
Multiply Handicapped	1,005	1,176	85.5
Home/Hospital Care	6,162	5,882	104.7
Total	186,519	257,631	72.4

a. "Behaviorally handicapped" includes both socially maladjusted and emotionally disturbed.
b. This includes estimates of 1,566 home/hospital and 817 multiply handicapped children in Chicago, based on State aid to Chicago for these categories.
c. Based on a school population of 2,352,786 and incidence rates in Column III of Table I.

Source: OSPI "Special Education Financial and Statistical Report," 1971.

Rapid progress has been made in recent years in the identification and diagnosis of handicapped children in Illinois. The closing gap between numbers of pupils served and those eligible is shown in Table 15 and

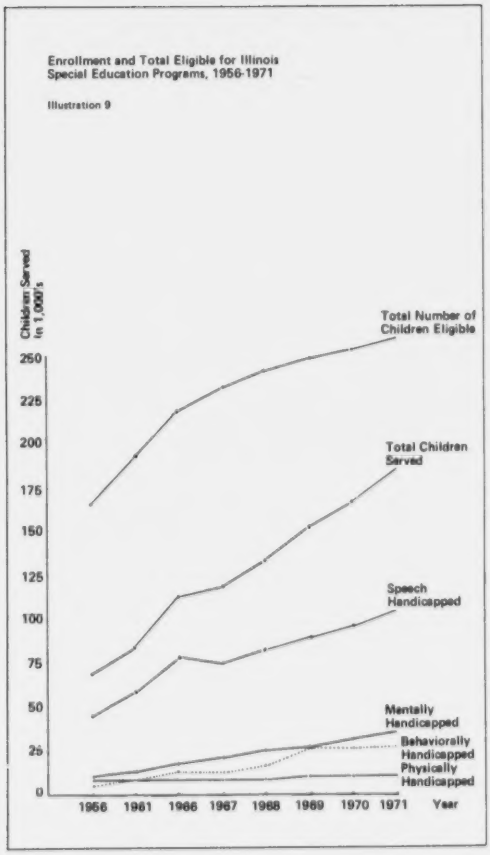
Illustration 9. Although schools now provide services for over 70% of handicapped students aged 5 to 19, the School Code was extended in 1972 to include preschool handicapped children, thus making an additional 40,000 exceptional children eligible for special education services.

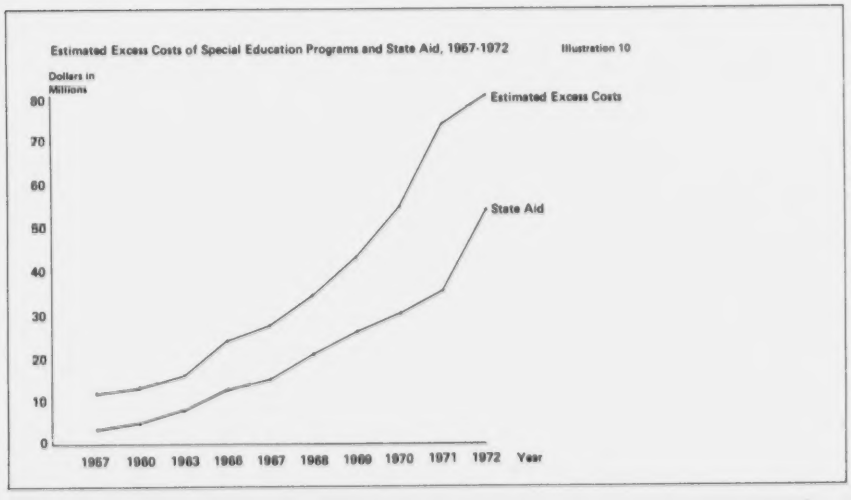
Table 15
Enrollment in Special Education Programs, 1956-1971

School Year	Physically Handicapped[a]	Mentally Handicapped[b]	Behaviorally Handicapped[c]	Speech Handicapped	Total Eligible
1956	6,422	8,884	4,391	46,667	159,090
1961	7,205	10,551	6,724	59,698	194,200
1966	7,236	18,574	10,505	80,078	223,380
1967	7,013	21,477	12,482	11,441	230,890
1968	7,651	24,619	18,802	84,340	236,960
1969	8,175	27,511	27,813 (5,463)	88,078	243,180
1970	8,163	33,430	27,966 (8,315)	95,289	248,560
1971	8,591	36,385	29,237 (10,392)	105,743	251,750

a. Includes pupils classified as physically, auditorily, visually, or multiply handicapped. This does not include home/hospital care. Since the number of multiply handicapped pupils served in Chicago is treated differently in this table than in Table 14, totals for the "physically handicapped" do not correspond exactly.
b. Includes educable and trainable mentally handicapped.
c. Includes socially maladjusted, emotionally disturbed, and learning disabled. For years in which separate learning-disabled enrollments are available, they are noted in parentheses.

Source: OSPI "Fourteen Year Summary of Special Education Programs (1956-1969)" and OSPI "Special Education Financial and Statistical Report" for Fiscal Years 1970 and 1971.


Enrollment and Total Eligible for Illinois
Special Education Programs, 1956-1971
Illustration 9
Children Served
In 1,000's
250
225
200
175
150
125
100
75
50
25
0
Total Number of
Children Eligible
Total Children
Served
Speech
Handicapped
Mentally
Handicapped
Behaviorally
Handicapped
Physically
Handicapped
1956 1961 1966 1967 1968 1969 1970 1971 Year


Estimated Excess Costs of Special Education Programs and State Aid, 1967-1972
Illustration 10
Dollars in
Millions
80
70
60
50
40
30
20
10
0
Estimated Excess Costs
State Aid
1957 1960 1963 1966 1967 1968 1969 1970 1971 1972 Year

State Aid to Special Education

Illinois has long been committed to supplying aid to cover a portion of the cost of special education programs and, with an increasingly large number of exceptional children being served, the financial commitment of the State is necessarily large. Handicapped children, like all students, are counted in ADA for computation of State aid through the general school aid formula, except that special education pupils are included in their home district ADA, no matter where they actually attend classes (whether at a public or, in special cases, private school). All categorical State aid for special education goes to the district actually providing special education services with the remaining costs of such programs paid by tuition transfers from the home district.

Until the mid-1950s, the State reimbursed districts for the "excess cost" of special education——the difference between a district's expenditure per regular child and per exceptional child——up to certain maximum amounts. Since 1958, the State has reimbursed districts in specified dollar amounts for each approved, full-time worker in special education and has paid 50 percent of expenditures up to specified dollar limits for home tutoring and noncertified personnel. The reimbursement schedule in effect for the 1971-72 school year includes an increase of $1,000 for most professional categories and $500 for noncertified employees and provides:

$5,000 per professional (including teachers, directors, psychologists, and social workers).
$1,000 per pupil receiving home or hospital instruction, one-half the teacher's salary, or $5,000, whichever is less.
$400 per visually handicapped child or one-half the teacher's salary, whichever is less.
$2,000 per noncertified worker in special education or one-half the salary, whichever is less.

In addition to reimbursement for employees in special education programs, State categorical aid funds:

80 percent of the cost of transportation for special education pupils.
$1,000 per professional worker, for construction of special education housing facilities, provided that OSPI has approved the plan and that the district's building fund is not sufficient to pay for construction, even after a special tax levy.
Up to $1,400 per severely handicapped child who cannot be served in a regular special education program. A district may either provide appropriate educational services or pay tuition up to $2,000 per year for private education for such children; the State covers all except the first $600 of such expenditures.

Although State aid distributed through the general school aid formula is paid in installments during the school year, categorical aid for special education is not paid until the fall following the school year for which the reimbursement is claimed.

Due to the joint agreement structure of special education programs, data on handicapped children are not available by their home district but only on the basis of where classes are conducted. Since per pupil aid distributed through the general school formula varies from district to district, total State aid to special education (including both general school aid and categorical aid) cannot be calculated. However, a comparison can be made between the "excess cost" of special education programs over standard programs and the categorical State aid designed to defray the extra expense of educating an exceptional student over a "normal" student. Cost of special education programs have been estimated both by the NEFP study and by F.W. Sorensen[2] who studied selected districts in

Illinois. Both of these studies developed cost ratios of special education programs to standard offerings. Table 16 shows amounts disbursed as categorical special education aid in recent years and estimated "excess costs" of programs; Illustration 10 shows the relationship between aid and costs.

Table 16
Estimated Excess Cost and State Aid for Special Education Programs, 1957-1971

Year	Average Expenditure per Pupil[a]	Estimated Excess Cost[b] (000's)	State Aid (000's)
1957	$371	$10,450	$ 2,599
1960	455	11,950	6,398
1963	513	15,280	7,933
1966	610	25,160	13,480
1967	672	26,200	25,230
1968	738	34,260	20,616
1969	743	42,430	25,645
1970	853	55,650	29,768
1971	978	70,170	35,473
1972	1,128	88,414	50,274

a. Includes all students in Illinois.
b. Sum of the "excess cost" portion of Sorensen ratios for each handicap x average expenditure per ADA x ADA for each category of handicap. This does not include home/hospital services. The excess cost portion of the ratio for speech-impaired students is assumed to be .2.

Source: *Biennial Statistical Reports* and "Social Education Financial and Statistical Report" Superintendent of Public Instruction.

Goals of Special Education

The purpose of special education programs is to provide appropriate educational services for handicapped children to enable them to develop to their maximum capabilities. If the state is to have effective special education services, four facets of special education programs must be equally and strongly emphasized:

- Identification and diagnosis
  - Early discovery of handicapped children
  - Accurate assessment of the child's disabilities
- Programs and services
  - Individualized curricula and teaching methods
  - Integration of handicapped children into regular programs with appropriate supplementary services (e.g., resource rooms, itinerant teachers)
- Evaluation
  - Local follow-up on individual students
  - State evaluation of local programs
- Equity
  - Availability of appropriate educational services for all handicapped children in Illinois.

Although the State disburses large sums annually through categorical aid to special education, it is not clear that a per-employee flat grant is the best distribution system available, in terms of either equity or impact on the structure of special education programs. State aid to special education might better be distributed through a voucher system, through funding of a percentage of program costs, or by increasing ADA in the general school aid formula by a proportion of the number of exceptional children served.

Alternative Aid Distribution Systems

A voucher system is currently in effect for severely handicapped children for whom the local district and the State pay tuition at private schools. However, extending such a system to all handicapped children seems ill-advised. State review of all applicants for vouchers would multiply administrative difficulties, costs of providing programs per pupil would probably increase to maximum voucher amounts, and, most importantly, local districts would still have to provide some diagnostic services (and therefore be partially reimbursed by the State). The numerous difficulties and anticipated costs of such a program indicate that funding special education through local districts remains the preferred course.

Funding on the basis of a percentage of the cost of special education programs might be a reasonable alternative if all school aid were distributed in this manner. Since that is not the case, however, administrative difficulties on the State and local levels probably preclude using such a formula. In addition, it is likely that the State would attempt to control expenditures in a percentage funding system by setting an upper limit on costs which could be compensated. This would in effect become a foundation formula.

Evaluation of "Per-Employee" and "Weighted ADA" Distribution Systems

Special education aid could be accommodated either through a modification of the present system of a flat grant per employee or by weighting special education ADA in the general school aid formula. Evaluation of either system should consider the impact of funding on the program goals mentioned earlier. Administrative efficiency must also be considered.

Identification and Diagnosis

A comprehensive diagnostic system requires the efforts of teachers (if a child is already in school), psychologists, social workers, and medical personnel, as well as the cooperation of parents. The present funding

system, by reimbursing on a per-professional basis, encourages the employment of appropriate diagnostic personnel, provided the district can afford to spend approximately $7,000 per professional in order to receive the State subsidy of $5,000 (assuming an average professional salary of $12,000). The expense of providing special education services may well encourage poorer districts not to identify handicapped students so that they would not have to serve them.

A weighted ADA system would increase State aid to a district with each additional pupil served, thus providing a financial incentive to identify handicapped students. Weights would need to be formulated to eliminate or minimize overrating or overidentifying students so as to qualify for large amounts of State aid.

Program and Services

The present funding system was designed to encourage the employment of sufficient numbers of teachers and the provision of adequate classrooms.

A major need not covered by the State funding mechanism is the provision of appropriate equipment and materials for handicapped children. Equipment needs might include, for example, handrails or special desks for physically handicapped children or specially designed texts for perceptually handicapped children. Funding per professional tends to earmark State aid for salaries, thus discouraging additional spending, entirely from local funds, for equipment and materials. At present, small amounts of Federal and State funds provide basic supplies for the visually handicapped through the OSPI Instructional Materials Center. This center also serves as a distributor of materials for research and evaluation of other handicaps, but on such a severely limited basis as to have little impact on the total need throughout the State. In 1972, the Illinois Legislature passed an appropriation of $20,000 to aid joint agreement programs to purchase or rent specialized equipment for special education. However, such stop gap measures merely obscure the need for a comprehensive plan of State aid.

Increasingly, educators believe that exceptional students should be

integrated into standard programs, insofar as possible, and provided with supplementary professional assistance and/or specialized equipment as needed. By funding professionals but not equipment, the State implicitly discourages such programs. In addition, funding special education transportation for pupils but not for teachers encourages districts to move handicapped pupils out of their regular schools, where they might be served part-time by "itinerant" teachers, and into schools and classes with other handicapped pupils. This centralization of special education students is further encouraged by State aid to special education construction, which not only fails to take need into account in distributing aid but allows districts to create additional classroom space for nonhandicapped pupils by building State-subsidized special education classrooms.

The combination of financial incentives for maintaining separate education classes limits the type of services districts can provide. The present OSPI *Rules and Regulations* further constrict the range of choices open to special education directors by specifying pupil-teacher ratios for each type of handicap.

The alternative of weighting ADA, by contrast, would give special education directors the freedom to allocate funds among various expenditures to suit the nature and degree of handicaps of children in their districts. Funds could be used, for example, to train regular teachers to deal with handicapped children in their classes or to defray transportation costs for teachers serving a number of schools, as well as for expenditures on equipment and materials. Although all funds disbursed through special education weightings would have to be spent on special education programs, aid would not be tied to a particular student or category of handicap, thus allowing funds to move as needed among programs or students. For example, one child with a severe physical handicap might require intensive services costing thousands of dollars per year; another child with a milder case of the same handicap might need only a few hours per week in a resource room costing the district a few

hundred dollars per year.

Breaking the link between funds received and teachers employed would give local special education administrators the financial flexibility to use a variety of approaches to special education, which should result in improved programs for handicapped children.

Evaluation

OSPI evaluation has until recently focused on the credentials of special education professionals rather than on judging the appropriateness of programs or locating the unidentified children in need of special education. However, it should be possible for local administrators to oversee professional credentials while the State takes a more active role in evaluating the effectiveness of special education programs. Indeed, OSPI has recently inaugurated a more comprehensive evaluation process; in order to operate effectively, however, criteria must be devised by which to judge the effectiveness or appropriateness of special education programs.

The present reimbursement system, by focusing on salaries, at least guarantees that State aid will be used for special education programs and that local districts will supplement the aid. A weighted ADA system would not automatically guarantee either, so the need for State evaluation is compounded when such a distribution system is employed. In addition, the State must ensure that all children identified as handicapped are actually receiving (and require) special services. Whereas evaluation under the present distribution system is peripheral to funding, it is crucial if weighted ADA is used to distribute state aid.

Equity

The proportion of the school population served varies widely among joint agreements as can be seen in the following table.

Table 17
Special Education Students as a Proportion of School Population in Two Joint Agreement Areas, 1970-71

	SESE Agreement[a]		Niles Township	
Category of Student	ADA	% of Districts' Population	ADA	% of Districts' Population
All in member districts of Joint Agreement	17,728	100%	20,372	100%
Speech Impaired	325	1.8	1,257	6.2
Other Handicapped (Educational Services Only)	294	1.7	843	4.1
Supportive Service[b]	188	1.1	2,068	10.2

a. South Eastern Special Education agreement, includes Clay, Crawford, Jasper, Lawrence, and Richland counties.
b. 80% of enrollment receiving supportive services (seeing school social workers, psychologists) was used to approximate ADA for purposes of comparison. It is not known if these students are in addition to those receiving educational services.

Sources: OSPI "Special Education Financial and Statistical Report," 1971.

The amounts of State aid per pupil also vary greatly. State aid is not necessarily proportional to the number of students served——nor does it relate to assessed valuation per pupil, tax effort or average expenditure per ADA.

Table 18
Comparison of State Aid to Special Education in Two Joint Agreement Areas, 1970-71

	SESE Agreement	Niles Twp.
Average Assessed Valuation per ADA[a]	$ 19,610	$ 34,330
Average Tax Effort[b]	.0261	.0397
All Students		
Average State Aid per ADA (Common School Fund only)	390	141
Average Expenditure per ADA	962	1,670
Handicapped Students		
Aid Based on Speech Teachers	20,432	73,720
Aid per Speech-Impaired ADA	41	42
Aid to Other Special Education Programs[c]	121,691	572,096
Aid per ADA in Education Programs[d]	349	679
Aid per Pupil, All Programs[e]	131	121

a. The sum of 1969 assessed valuations (AV) of all unit and secondary districts in the joint agreement, divided by total ADA. Using unit and elementary district AV's results in AV/ADA of $19,200 and $34,320.
b. Sum of 1970 tax rate x 1969 assessed valuation for all member districts, divided by total assessed valuations.
c. Includes all per-employee aid except that involving speech teachers and home/hospital care.
d. Excludes ADA of students in speech correction and those receiving only supportive services.
e. Includes ADA and claims for speech correction, special education programs, and supportive services. Excludes home/hospital care.

Source: OSPI *Annual State Aid Claim Statistics, 1971-72* and OSPI *1969 Assessed Valuations and 1970 Tax Rates*

Variations in State aid per special education pupil arise not so much from variations in pupil/teacher ratios (these are to an extent standardized by OSPI) but from wide variations in the number of supporting personnel (psychologists, prevocational coordinators, special physical education, or driver training teachers). Some districts are able to hire more than enough specialists, while other districts can barely afford to provide needed teachers.

Comparison among joint agreements, however, obscures variations in what individual districts have to pay for special education services for resident handicapped children. Within a joint agreement, districts may be charged equal "tuition" rates to send handicapped children to special education classes, even though there may be great disparities in wealth among those districts.

Weightings to be used for special education ADA can be devised on the basis of the amount of State aid to be disbursed, the number of pupils to be served, and the general school aid formula. Research being conducted by the Governor's Office of Human Resources in cooperation with OSPI will, when completed, provide the best estimates on what special education programs cost in Illinois. This study will specify the type of program provided as an integral part of the cost estimates. Until then, the NEFP and Sorensen studies provide the best estimates of costs of special education by which the adequacy of State aid can be gauged.

Recommendations

To achieve a more equitable distribution of State aid to special education and to give local special education administrators flexibility in operating special education programs, the Task Force recommends:

1. Elimination of the "per-employee" system of State aid as set forth in section 14-13.01a, c-h of the School Code and, in its place, distribution of State aid to special education through the mechanism of the general school formula, beginning with school year 1973-74. Sections

14-13.01b and 14.7.02 would not be affected by the following recommendations.

2. All State aid distributed by means of the additional weighting granted to special education students (that is, the portion of the weight greater than 1) be required to be spent exclusively on special education services, including but not limited to teaching, diagnostic and supporting personnel, specialized equipment, and instructional materials. In addition, we recommend that OSPI continue to be responsible for program approval and to expand and refine their evaluation system for special education to ensure that districts are providing adequate and appropriate special education services.

3. That weightings be devised to reflect the proportionately higher costs of special education over standard school programs and that these weightings be revised as needed, as more data on the costs of special education become available.

4. Elimination of the present "per-professional" grant for special education housing as set forth in section 14-13.02 of the School Code. We recommend that districts be required to provide for special education facilities sufficient to meet district needs in any school construction project for which State financial assistance is requested.

ENDNOTES

1 Rossmiller, Richard A., "Resource Configurations and Costs in Educational Programs for Exceptional Children," in *National Education Finance Project,* vol. 3, Gainesville, Florida, 1971.

2 Sorensen, F.W., *A Cost Analysis of Selected Public School Special Education Systems in Illinois,* Preliminary Report, November 1971. (unpublished doctoral dissertation)

FINANCING PUPIL TRANSPORTATION

More than 789,000 Illinois school children, about 33 percent of the total student enrollment, are dependent upon public school transportation services. Illinois law requires school districts to provide free transportation for all public school students who reside more than one and one-half miles from their assigned schools. Districts must also provide such service for private school pupils who reside more than one and one-half miles from school and can be picked up and discharged along a regular transportation route.

Illustrations 11 and 12 show the growth of pupil transportation in Illinois. In the last five years, the total number of pupils transported annually has increased 23 percent. Total transportation costs, $49.7 million in 1971-72, are up 57 percent in the same period. The cost of pupil transportation is divided into State and local shares on the basis of a State assistance formula. Illustration 13 shows the growth in State transportation aid to school districts from 30 percent of costs in 1966-67 to 57 percent of costs in 1971-72. In 1971-72, transportation accounted for 2.7 percent of total State expenditures on elementary and secondary education.

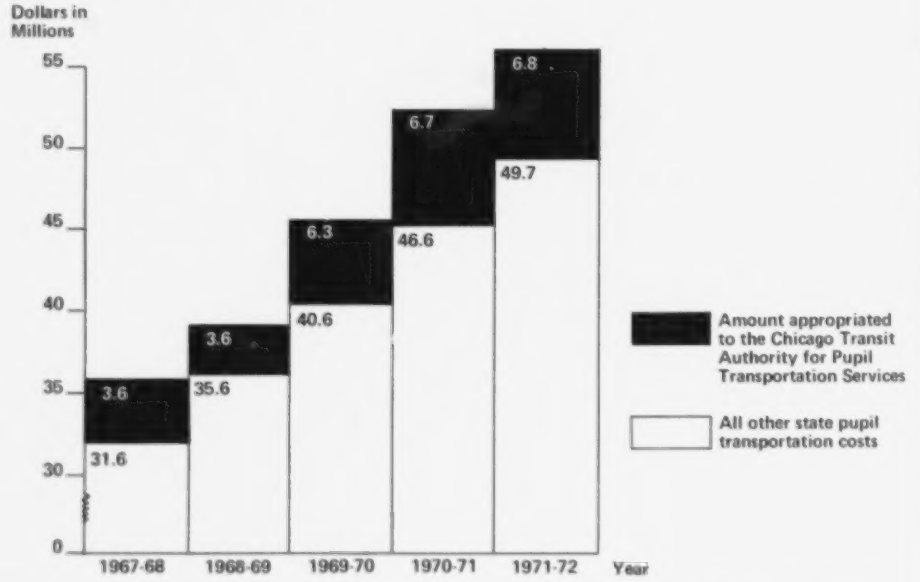
The State's increasing financial responsibility for pupil transportation, the trend toward increased student participation in the program, and higher per-pupil costs (shown in Table 19) make transportation of pupils a source of concern to the Task Force. The relationship among the State aid formula, State participation in transportation management, and transportation cost trends is stressed throughout the following discussion.

The Transportation Aid Formula

Since 1969, pupil transportation has been financed through a new combination of local and State effort. To transport eligible pupils, a local district pays a "qualifying" amount computed by multiplying the district's assessed valuation (AV) by a specific tax rate. The required tax rate for elementary, secondary and dual districts is 5 cents and 3 cents per

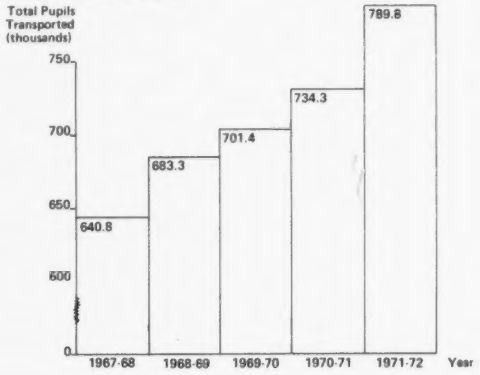
Total Transportation Costs To and From School in Illinois

Illustration 11



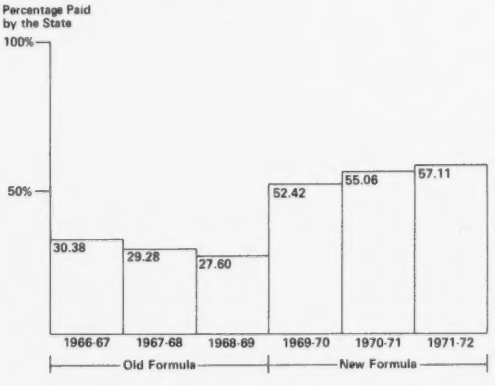
Total Pupils Transported Annually in Illinois, 1967-1972

Illustration 12



Proportion of Pupil Transportation Costs Paid by Illinois State Government

Illustration 13



$100 of assessed valuation respectively. The total rate for dual districts is one cent more than the rate for unit districts. The State reimburses the district for the cost of transporting eligible pupils, less the qualifying amount. No district receives less than $16 for each eligible pupil transported.

The operation of the formula is illustrated in the following example:

> District Y, AV of $100,000,000, is a unit district with a transportation qualifying rate of .07%. The cost of transporting eligible pupils is $110,000, but its qualifying amount is $70,000 (AV x tax rate). Thus, State transportation aid of $40,000 ($110,000 – $70,000).

The formula employs an equalization principle that channels proportionately more assistance to districts with the least financial capacity to support their own programs. The State reimburses districts for 100% of transportation cost increases above the qualifying amount.

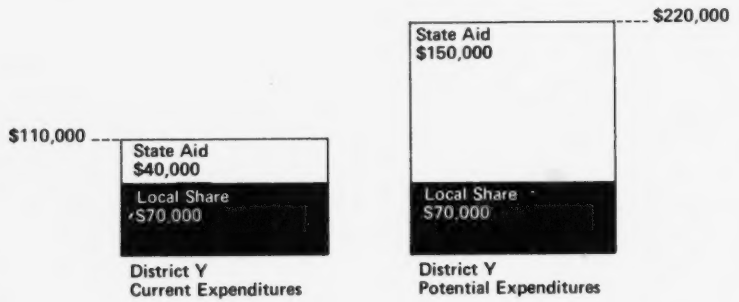
The formula has been successful in preventing transportation fund deficits in districts with low assessed valuation or high transportation costs. Nevertheless, it may be discouraging local efficiency and contributing to rapid growth in total transportation costs.

For example, consider District Y again. Its expenditures are $110,000 and it raises $70,000 locally. The State provides the balance ($40,000). Assume that the equalized assessed valuation, the transportation tax rate, and consequently the local share remain constant but the total transportation cost increases to 220,000, as depicted in Illustration 14. The State is obligated to reimburse the district for each dollar of increased cost. Except for cases where the AV increases, the districts can pass all cost increases on to the State. In this way the formula may eliminate a district's incentive to economize.

As anticipated, the State currently finances a larger proportion of school transportation costs than it did before the new formula was instituted, as shown in Illustration 13. The increases in total transportation costs after 1969 shown in Table 19 reflect a combination of factors: improvements in the quality of transportation services and the

The Possible Effect of the Present Transportation Formula: An Example

Illustration 14



incentive structure that districts faced after the formula was adopted.

Table 19
Annual Transportation
Cost Per Eligible Pupil

	Previous Formula			New Formula		
	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
Dollar Total	58.71	60.20	63.15	65.88	71.97	74.75
Dollar Increase		1.49	3.95	2.73	6.09	2.78
Percentage Increase		2.5	4.9	4.3	9.2	3.8

The average per-pupil transportation cost increased dramatically in 1970-71. The small increase in 1971-72 should be considered in the perspective of the large increase during the previous year and the wage and price controls that were in effect. The design of the formula obligates the State to pay an increasing proportion of a rapidly growing cost base, thereby providing tax relief to the districts. However, to the extent the formula encourages inefficiency, it misallocates State education dollars by channelling them from general State aid to transportation.

Transportation Cost Analysis

Trends in the four main components of total transportation cost——salaries, contractual services, maintenance, and depreciation——were analyzed over a four-year period, 1968-1972, in an 82-district sample. The absence of accurate data on mileage travelled, in the provision of pupil transportation services, necessitated the use of per pupil costs as the cost unit of analysis in the sample study. Districts were selected so that the sample would represent the state geographically; the proportion of elementary, secondary, and unit districts would roughly correspond to state totals; and the proportion of districts operating their own buses would approximate the state total.

The analysis has two parts. In both parts the *expected rate* of

inflation is estimated to be 13 to 17 percent. This rate is calculated on the assumption that a 5 percent annual rate of inflation in transportation costs approximates the actual annual rate for the four year period.

In the first part, the districts that either own and operate their own fleets or contract for services are analyzed. The rates of cost increases in these districts is shown in Table 20. Cost increases for the 30 district operated transportation systems are shown by the categories salaries, maintenance and depreciation. Entries for all three categories in some cases were unavailable. The contractual services category depicts cost trends in the 40 districts where bus services are privately operated.

Table 20
Percentage Change in per Pupil Cost by District
1968-9 to 1971-2
in Terms of Percentage of Districts and Number of Districts

Type of Service	Decreases and Increases up to 7%	Increases 8%-12%	(Expected) 13%-17%	18%-22%	23%-30%	31%-60%	More Than 60%
District Operated							
Salaries	23%	0%	10%	13%	17%	27%	10%
Number of Districts	7	0	3	4	5	8	3
Maintenance	24%	5%	5%	14%	5%	14%	33%
Number of Districts	5	1	1	3	1	3	7
Depreciation	32%	0%	11%	7%	7%	25%	18%
Number of Districts	9	0	3	2	2	7	5
Privately Operated							
Contractual Services	27%	0%	13%	0%	7%	27%	25%
Number of Districts	11	0	5	0	3	11	10

Multiple price increases greater than 10% annually are unusual and require explanation. Table 21 shows the number of the 70 districts analyzed in the first part where such increases occurred more than once in the four-year period.

Table 21
The Number of Districts with Increases of More than 10%
1968-9 to 1971-2

Type of Service	Number of Districts		
	Two Times	Three Times	Total
District Operated			
Salaries	10	1	11
Maintenance	12	1	13
Depreciation	7	1	8
Privately Operated			
Contractual Services	14	3	17

The second part is an analysis of cost trends in districts that operate their own fleet and also contract for a considerable proportion of their transportation needs. The methods of analysis used in the first part are inappropriate for analyzing districts that contract for services and operate their own fleets simultaneously. For these districts, item expenditures were added to obtain an aggregate figure for the first and last years of the four-year period. The changes in aggregate per-pupil spending in the 12 districts are shown in Table 22.

Table 22
Changes in Per Pupil Expenditures in Districts Contracting for Services and Operating Their Own Buses

	Number of Districts
Decreases and Increases up to 7%	5
Increases of 13%-17%	2
Increases of 18%-22%	1
Increases of 31%-60%	4

Analysis

District Operated Transportation Services

Salaries

Ten of the districts in the sample (33 percent) maintained salaries at or below their 1968-69 levels (assuming a 5 percent annual rate of inflation). Moderate salary increases were granted in 13% (3) of the districts.

In 36 percent (11) of the districts, salaries increased by 15 percent or more, even after allowing for inflation. Eleven districts granted salary increases over 10% annually in two or all of the three periods.

Maintenance

Maintenance costs increased by the expected amount (13 to 17 percent) in 7, or one-third, of the districts. A small percentage of the districts trimmed cost increases to 4 to 6 percent after allowing for inflation. Yet, almost one-half of the districts (10) experienced increases greater than 15% after provisions for inflation. In one-third of the districts, costs increased over 45% after the inflation provision. A large number of districts (13) experienced increases over 10 percent twice in the four-year period.

Depreci
ciation

Alth
ough the cost of depreciation grew more rapidly than the cost of living in a majority of districts, such costs grew more slowly than other pupil tran
nsportation cost items in the four-year period. Nevertheless, 42% of the dis
istricts (12) experienced increases of 15% or more after inflation.

Privately
ly Operated Transportation Services
Contra
ractual Services

Cost
sts in two-fifths (16) of the districts increased 17% or less. However,
r, a large proportion of the districts experienced increases over 31%. Tw
wenty-five percent of the districts reported increases greater than 61% over the four-year period. The annual cost increase data reveal that high annu
ual increases occurred more often in contractual service districts than in ar
any other type of district.

Conclusio
ion

Part
t one of the sample study shows that a high proportion of districts are grouped either significantly above or below the level of expected
d increase. Nevertheless, neither location (urban or rural) nor estimated
d mileage traveled by district buses fully explain why only a few districts experienced "normal" inflationary cost increases or why one group of districts has successfully restricted cost increases while a large group has suffered rapid cost increases. The analysis of 12 districts that operate their own fleets and also contract for a considerable proportion of their tran
nsportation requirement shows similar results.

Und
der the current formula, high cost increases have occurred regularly in many districts, and most often in contractual service districts. The incr
reases reflect either increases in the quality of transportation services, indifference to cost cutting, inadequate transportation managem
nent skills, or a lack of competition among private bus contracto
ors. The State has assumed full financial responsibility for transporta
tation cost increases in many school districts, but has not exercised additional control over the administration and operation of pupil tra
ansportation services. With no ceiling on cost increases and no

State technical assistance to the districts, misallocation or resources from State education funds to State transportation funds will continue during a period of severe fiscal constraints.

Recommendations

Inadequate cost accounting procedures make difficult any major improvement of the pupil transportation program in Illinois. The Task Force recommends the following:

1. OSPI should develop a valid cost unit. In addition, it should undertake a thorough analysis of district transportation costs and take steps to ensure the accuracy of data on miles traveled. To improve program data, school districts should be required to report the percentage change in average annual per-pupil cost when submitting claims for reimbursement.

2. A suitable price index should be used to establish a ceiling on annual per eligible pupil cost increases. A district would be reimbursed for that portion of its claim which exceeds this allowable increase only if it can justify the amount by which its claim is in excess of the allowable level.

3. OSPI should provide managerial assistance to the districts in order to achieve transportation economies by:

- **a) Financing a computerized bus routing system in at least five pilot districts.**
- **b) Encouraging school districts to consolidate their pupil transportation services by providing financial and technical assistance in the consideration of consolidation plans and in the transition to a consolidated system.**
- **c) Investigating the possibility of maintaining a fleet of buses for rental by school districts.**
- **d) Encouraging districts to purchase buses cooperatively at quantity discount prices.**

4. The Illinois Commerce Commission should investigate the extent of competition in bidding by private bus contractors on school transportation contracts.

5. The qualifying rates for dual and unit districts should be equalized at such time as equalization of tax rates in the common school aid formula is achieved.

FINANCING COMPENSATION

Public schooling is labor intensive —— salaries for school teachers comprise 53 percent of the average school district budget in Illinois. In recent years, significant shares of new school revenues have been spent to improve the economic status of teachers and other school personnel. Since the mid-1960s, both salaries and contributions to retirement systems have increased substantially.

Because personnel compensation is the major single expenditure of the public schools, the Task Force considered the relationship between the state system of financing education and rising personnel costs. Our analysis includes review of recent changes in the economic status of Illinois school employees and projection of conditions in the market for school personnel. We also examine a number of measures designed to increase the productivity of public school personnel.

Current Compensation

Table 23 and Illustration 15 show the growth in starting salaries for full-time classroom teachers in Chicago during the six-year period 1967-72 and downstate during the four-year period 1968-71.

In downstate elementary schools, the salary for beginning teachers with B.A. degrees increased 20.9 percent since 1968-69 school year, an average annual increase in excess of 5 percent. In downstate secondary schools, the increase was 23.5 percent, or almost 6 percent per year. Starting salaries for Chicago teachers rose a striking 59.5 percent during the six-year period covered: from $6,000 in 1967 to $9,570 in 1972, an average of almost 10% per year.

Table 23
Mean Starting Salary and Percentage of Increase,
1967-72, for Beginning Downstate and Chicago Teachers

	All Chicago		Downstate Elementary		Downstate Secondary	
	$	% Increase	$	% Increase	$	% Increase
1967	6,000					
1967-68						
1968	6,560	9				
1968-69			6,426		6,603	
1969	7,350	12				
1969-70			7,273	13	7,605	15
1970	8,400	14				
1970-71			7,767	7	8,159	7
1971	9,072	8				
1972	9,570	5				

Source: Data from the Office of the Superintendent of Public Instruction and the Chicago Board of Education.

Table 24 further illustrates the dramatic growth trend in Chicago teachers' starting salaries. The minimum salary for a Chicago Teacher with a B.A. degree in 1960 was $5,000. By 1966, this minimum had increased 10 percent to $5,500, an annual increase of 1.67 percent. By 1971, however, the minimum had increased 69.4 percent from the 1960 level, to $9,072. Although the increase for the entire 1960-71 period was 81.4 percent, or almost 7 percent per year, it is in the last six years that a significant 65 percent growth occurred. Thus, for the period 1966-72, the annual increase was almost 11 percent.

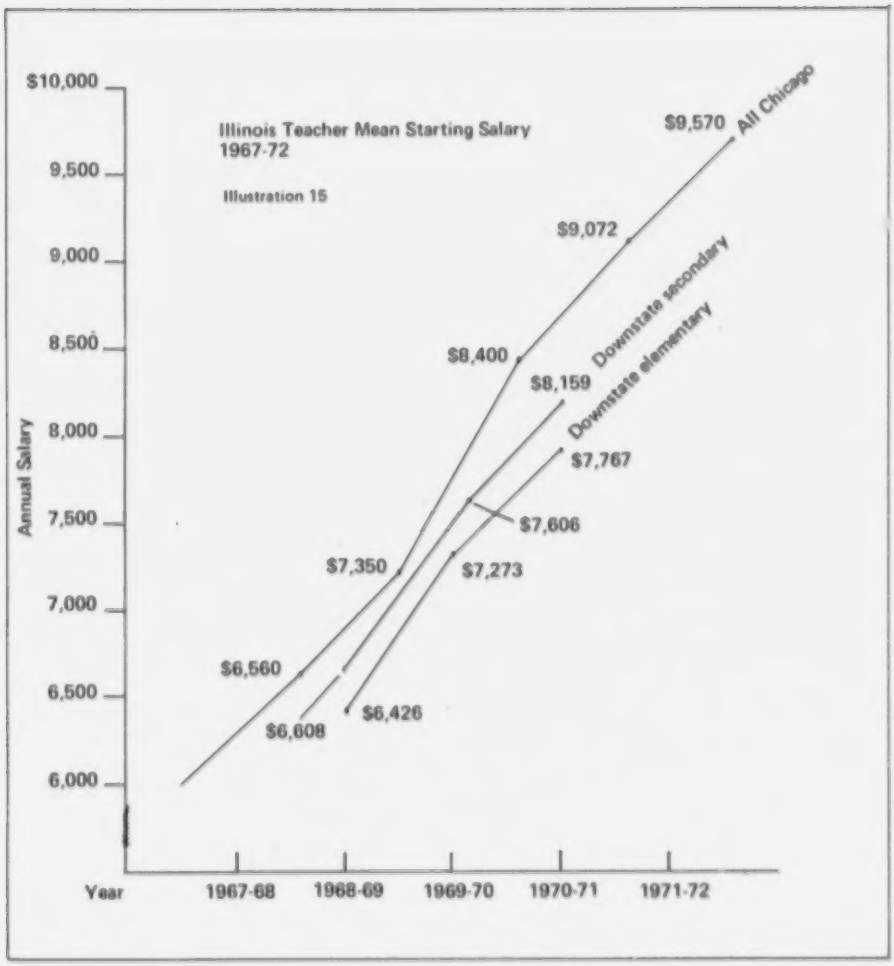

Illinois Teacher Mean Starting Salary
1967-72
Illustration 15
$10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
6,000
Annual Salary
Year
1967-68
1968-69
1969-70
1970-71
1971-72
All Chicago
$9,570
$9,072
$8,400
Downstate secondary
$8,159
Downstate elementary
$7,767
$7,606
$7,350
$7,273
$6,560
$6,608
$6,426

Table 24
Growth in Minimum Salaries for Chicago Teachers with B.A. Degrees Selected Years 1960-1971

	1960	1961	1966	1970	1971
Minimum Salary	$5,000	$5,100	$5,500	$8,400	$9,072
Percent of Growth	—	2	8	53	8

Source: Bulletins No. 752, 769, and 793, The Civil Federation, Chicago, Illinois.

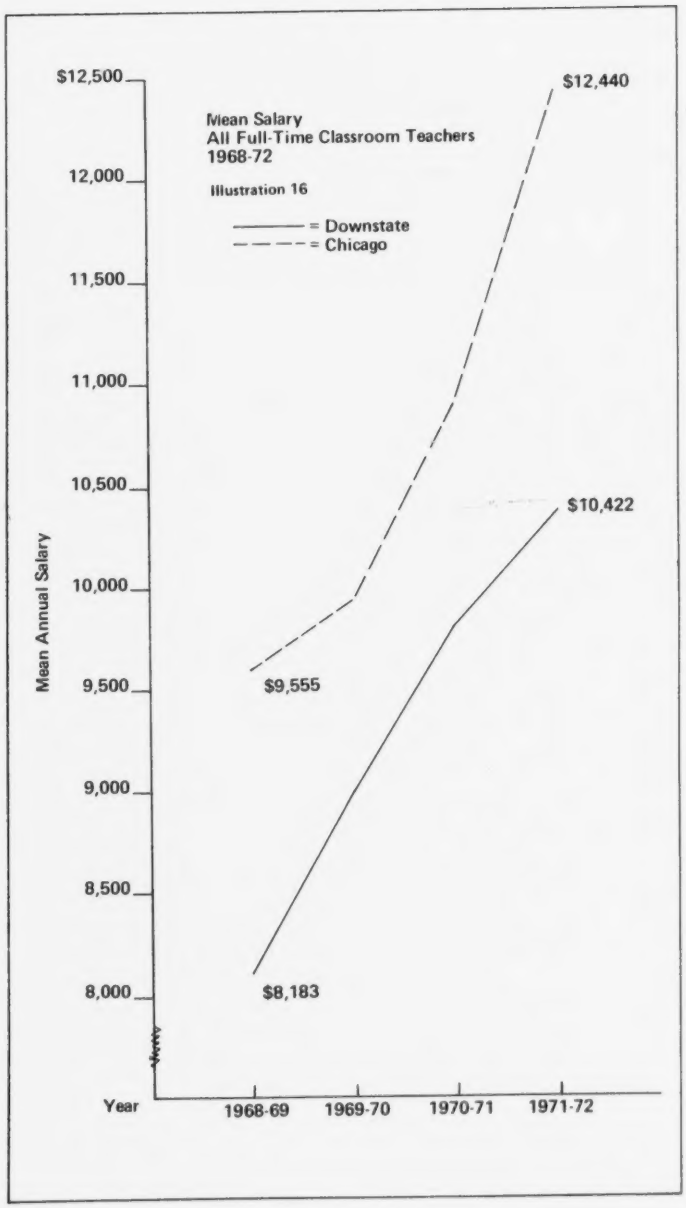
Table 25 and Illustration 16 show the trend in mean salaries for full-time classroom teachers. During the period 1968-72, the mean salary for downstate teachers increased 27.4%, and the mean salary for Chicago teachers increased 30.2 percent

Table 25
Mean Salaries, Full-Time Classroom Teachers, 1968-72

		1968	1969	1970	1971	1972
Chicago	– $ Increase	$9,555	$9,980	$10,920	$11,791	$12,439
	% Increase		4	9	8	5
Downstate	–$ Increase	$8,138	$9,022	$9,825	$10,422	
	% Increase		11	9	6	

Source: Data from the Office of the Superintendent of Public Instruction and the Chicago Board of Education.

At the time that this trend in salaries was being experienced, there was also a drastic change in the market for new teachers. The increasing


Mean Salary
All Full-Time Classroom Teachers
1968-72
Illustration 16
= Downstate
= Chicago
$12,500
12,000
11,500
11,000
10,500
10,000
9,500
9,000
8,500
8,000
Mean Annual Salary
$12,440
$10,422
$9,555
$8,183
Year
1968-69
1969-70
1970-71
1971-72

over-supply of teachers, in Illinois and nationwide, is even more startling when the projected decrease in enrollments is considered.

According to National Education Association research, the total nation-wide annual demand for new teachers will be between 108,000 and 115,900 through 1979, less than half as large as the supply in each of these years, estimated at an average annually of 271,200 between 1971 and 1979. In 1971-72, less than half the teachers prepared to enter the profession by Illinois institutions of higher education were able to find employment as teachers.

Another crucial factor in understanding the current compensation situation is whether teachers' salaries compare favorably to salaries in other occupations requiring similar preparation.

Such comparisons are difficult to conduct and are easily challenged. The fact that no two occupations are exactly comparable is a point that needs no elaboration. Our studies, which were made in recognition of the problems inherent in efforts of this sort, reveal that teachers' salaries are indeed on a par with salaries of other college-based professions.

In order to overcome some of the obstacles to comparison, occupations were selected which required a B.A. degree and some period of on-the-job training or examination as a condition of employment. Another consideration was that employment in the selected occupations be largely in the public sector. To estimate what teachers' salaries would be on a 12-month basis, the example of the Valley View District, the only district in Illinois which uses a continuous school plan, is cited.

In addition to actual figures, salaries are shown in an "adjusted" form. The technique of adjusting by computation on the basis of an 11-month work year is used to account for the work year differential between teaching and other occupations. Accordingly, a comparison is attempted by making teachers' salaries reflect an 11-month work year instead of a 9-month work year. Salaries of other occupations will be deflated proportionately.

Table 26 shows the actual starting salary for teachers, selected hospital personnel whose preparation requires a bachelor's degree, selected state employees, and selected professional, administrative, and technical personnel. The table also shows the "adjusted salary," or the salary adjusted to reflect an 11-month work year, for purposes of comparison.

Table 26
Comparison of Starting Salaries for Selected Occupations, 1970-71.

Occupation	Starting Salary	Adjusted Salary
Chicago Teacher	$ 9,072	$11,088
Valley View Dist. Teacher*	10,834	10,362
State Educator for the Deaf**	8,217	10,043
Downstate Secondary Teacher	8,159	9,972
Downstate Elementary Teacher	7,767	9,493
Civil Engineer I	9,888	9,064
Arson Investigator	9,312	8,536
Chemist	9,164	8,403
Physical Therapist	9,108	8,349
Job Analyst	8,938	8,193
Auditor	8,894	8,153
Dietitian	8,820	8,085
Occupational Therapist	8,784	8,052
Day Care Group Leader	8,712	7,986
Buyer	8,512	7,803
Public Aid Caseworker	8,196	7,513
Accountant I	8,196	7,513
Medical Record Librarian	8,028	7,359

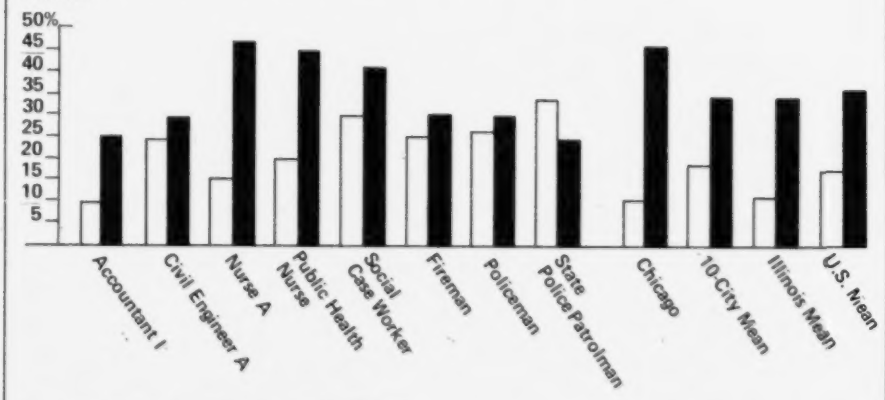
Sources: Data from the Office of the Superintendent of Public Instruction and the Chicago Board of Education; *Valley View District 45-15 Continuous School Year Plan,* Valley View School District No. 96, Research and Development Office, Lockport, Illinois; *Hospital Salaries in Illinois, 1971,* Illinois Hospital Association Report No. 48, Chicago, Illinois; *Bureau of Labor Statistics Handbook, 1971,* Table 96..

* Full year employment is 11½ months (244 school days).

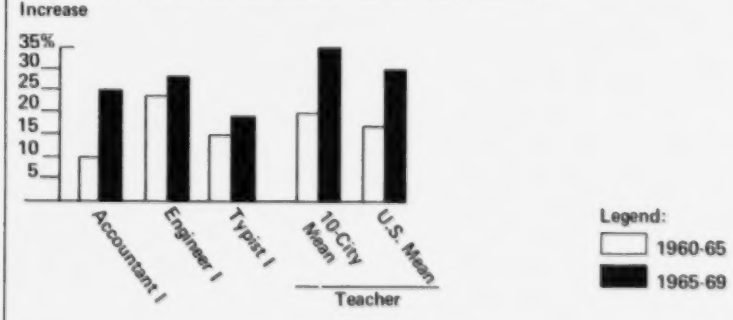
** Normally works a nine-month year.

Illustration 17

Percentage Increase in Average Minimum Salary
1960-65 Compared with 1965-69



Percentage Increase in Average Minimum Salary
Teachers Compared with Selected Positions in Private Industry



Source: State of Illinois, Bureau of the Budget

Table 26 indicates that, despite the disparities in work year, the starting salaries for Illinois teachers are comparable to those of other professions selected. The Valley View District teacher who elects to teach a full school year of 244 school days begins with the highest salary shown. The salary of a Chicago teacher is clearly comparable to that of a state civil engineer, physical therapist, or chemist.

When an adjustment is made for the work year differential, starting salaries for teachers are the highest of the occupations studied. Illustration 17 presents a historical perspective on the comparisons among occupations.

Table 26 and Illustration 17 show that teachers' salaries have reached a level comparable to salaries in professions requiring similar preparation.

Conclusions

The Task Force observed that, during the '60s, teachers' compensation rose faster than the compensation of those in comparable occupations in the American economy. The result is that teachers have reached substantial parity with these other professionals, having entered the decade relatively underpaid. *

As a planning assumption for estimating teachers' compensation, we suggest that, in comparison with personnel in occupations requiring similar preparation, additional relative gains are unlikely. However, teachers can expect to see their compensation rise sufficiently to maintain at least their present parity with personnel in comparable occupations. For planning purposes, the same assumption should be made for all staff.**

The Task Force proposes that revisions in personnel policy be tested for their possible impact on educational effectiveness, gains in productivity, and control of educational costs. Suggested measures are:

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* See dissent by William P. Cote, p. 176

** See comment by Robert J. R. Follett, p. 166

- Student-to-adult instructional personnel ratio
- Present certification requirements for study hall, lunch room, or playground personnel.
- Use of paraprofessionals and other part-time personnel, such as faculty members from colleges and universities, craftsmen, artists, housewives, etc.
- Teacher evaluation
- Adoption of a 12-month school year
- Reorganization of school districts.

Deferred Compensation

Approximately $100 million a year is spent on teacher retirement needs of 100,000 Illinois teachers. The State of Illinois funds a substantial part of this $100 million from its current revenues. Because of the significant increase in state liability for teacher retirement funds and the complex nature of funding public pension funds, a public examination of the method of funding deferred compensation for Illinois teachers is needed.

Mandatory Retirement

Currently in Illinois there are no mandatory retirement provisions for public employees. Retirement before age 65 for public employees means reduced pension benefits, except for firemen and policemen. It would appear, however, that the School code gives school boards adequate control over post-65 employment. According to the statute (Ill. Rev. Stat., ch. 122, 34-84, 1971), all teachers, principals, and other educational employees must be promoted for merit only. After a 3-year probationary period, the appointments of teachers and principals become permanent. Tenure may be terminated for cause and it must be terminated when the employee reaches the age of 65.

Social Security

The major benefit of Social Security for public employees is that it provides a substantial degree of professional mobility not present in State

public retirement systems. Two major pension funds —— the Illinois Municipal Retirement Fund and the State Employees' Retirement System —— now have Social Security as base coverage, with supplemental provisions under the existing local pension funds. The Social Security Enabling Act of Illinois outlines the procedures by which Chicago teachers and downstate teachers may elect to join Social Security by referendum.

The Pension Laws Commission considers the coordination of State and local pension funds with federal Social Security feasible and practicable. The Social Security Act of Illinois appears to meet the conditions set out by the Pension Laws Commission. The experience of the State Employees and Illinois Municipal Retirement Funds with Social Security indicates that the plan of coverage is additive or supplemental and that adequate financing is provided, as stipulated by the Commission.

The current enabling legislation states that total retirement benefits under a plan of coordination with Social Security will be at least equal to benefits payable under the retirement system prior to coordination. Thus, public employees need not fear a loss of total benefits as a result of joining Social Security.

To determine the effects of Social Security on the State-supported Teachers' Retirement System requires a detailed study, taking into account such factors as costs of the State retirement systems, number of teachers expected to join Social Security, future funding requirements of the State, and projections of employment and salaries.

Liabilities and Earnings of Public Pension Funds

Recently, the actuarial determinations of liabilities and funding requirements for all State-supported systems have become a major budgetary issue, largely because of the 1971 actuarial report of the Downstate Teachers Retirement System. For June 30, 1971, the actuary for the Teachers Retirement System reported a new liability for the past year of $913 million. This is three times the amount for the previous year. Only about one-sixth of this new liability reflects a liability for benefits earned during the year; the bulk of this increase came from altered assumptions about the liabilities of previous years.

Some
fact that, e question regarding the validity of these figures is raised by the
services (i in 1971, the actuary charged the system only $7,933 for its
employee in 1970, the charge was $12,447). It seems unusual for an
to spend s benefit system with assets and liabilities in the billions of dollars
The so little on actuarial services.
maintain State should receive adequate actuarial services because it cannot
liabilities any sort of consistent funding policy when the computed
changes. I of the retirement systems experience enormous and sudden
determina In addition, the State should understand what these actuarial
for each s tions of funding requirements mean in terms of funding goals
that reflec ystem, and it should know that actuaries assume rates of interest
In ac t the actual rates of return earned by the pension funds.
system, th ddition to questions concerning the liability of each retirement
discussed. he earning performance of each fund's investor has been widely
funds sho Any authority responsible for the investment of public pension
preservati uld have as primary objectives of his investment policy the
income. on of principal and the realization of a reasonable rate of
In Ill
pension linois, the portfolio management practices governing the various
prelimina funds have not been subjected to any detailed review. A
Investmen y analysis of the various major funds outside the State
not state t Board has revealed that portfolio managers of most funds did
depreciati their investment policies, did not recognize appreciation or
hesitated on of assets, did not record market values for various assets,
held tax- to profit from increased authority in the purchase of equities,
difficult-t exempt assets in their portfolios, held high percentages of
return wh -market securities such as mortgages, and calculated a rate of
in the valu ich included only investment income and excluded appreciation
A S e of assets held.
conducted tate review of portfolio management practices should be
used to th because (1) investment income is the only variable that can be
to fund, a e State's advantage to reduce the amount the State is required
more likel and (2) the better the rates of return earned by the funds, the
ly that the actuaries will assume a higher rate, lowering the new

liability each year.

Alternative Methods of Funding State-Supported Retirement Systems

Currently, payouts to retired individuals and a small supplement to employee contributions and interest income are appropriated for retirement funds. The Pension Laws Commission recommends that 65 percent of the liability of each fund be appropriated. Although this is an arbitrary figure, it represents that Commission's belief that public pensions need not be fully funded. The legal minimum funding requirements for State contributions vary depending on the system; when expressed in common terms, such as percent of payroll, they are highly inequitable. The requirement for the Universities system approximates 14.5 percent of payroll, while the Downstate Teachers' requirement is 9.6 percent of payroll.

Several funding alternatives are the following:

Full Funding —— The State places into the funds each year monies that would be sufficient to raise assets to an amount equal to the total liability. Such a policy would require that the State appropriate monies for each system equal to the current unfunded liabilities of the system, and for each year thereafter, assume the costs of all new liabilities, less employee contributions and investment income. The unfunded liabilities of such a policy would be as in the following example:

Table 27
Estimated Unfunded Liabilities as of 1970 in Four Illinois Public Pension Funds, Assuming Full Funding
($ in millions)

Downstate Teachers	$ 936.1
Universities	217.9
State Employees	279.2
Judges and General Assembly	22.4
Total	$1,455.6

Chicago teachers are not included in the foregoing table because their unfunded liability is considered an obligation of the City of Chicago.

If the 1971 liability of an additional $913 million recommended by the actuary for the Downstate Teachers' system is added to the 1970 figures, the estimated total unfunded liability of these four funds will increase by over 50 percent to $2.4 billion. Total costs to the State would range from $204 million in 1972 to $272 million in 1977, excluding $30 million for retirement costs of the Chicato Teachers system.

Funding the Actuarially Required Amount —— The State pays 65 percent of the actuarially determined liability. With the exception of the General Assembly Retirement Fund, this increases State contributions to all of the funds.

Total costs to the State of this funding policy would range from $284 million in 1972 (includes Judges and General Assembly systems) to $362 million in 1977. Current costs of the retirement systems for FY 73 are $175 million.

Funding Payouts and Administrative Expenses —— The State funds only the amount needed for payouts and administrative expenses. Assets of each fund continue to grow from employee contributions and investment income. The percentage of funding of each system increases, if new liabilities do not increase at a rate faster than the rate of growth of employee contributions and investment income.

Assuming that the State continued to fund the Chicago Teachers system as it has in the past, the costs to the State of funding payouts and administrative expenses would increase from approximately $168 million in 1973 to $304 million in 1977.

Funding All Systems at a 50 Percent Level —— The State contributes monies to each system in amounts somewhat lower than the actuarially determined liability. Costs to the State would range from $212.5 million in 1973 to $306.0 million in 1977.

Conclusions and Recommendations

The State of Illinois has very good reasons for concern about the funding of deferred compensation for its teachers. The first step taken by

the State should be to investigate the actuarial assumptions used in calculating retirement fund liabilities and the performance of investors in earning reasonable rates of return on public pension fund monies. Only after these studies are completed can the State, the actuaries, and the teachers agree on which funding levels and strategies are appropriate. With this approach in mind, we recommend that:

. **The State of Illinois investigate the assumptions and procedures used by the actuaries providing services to State-supported systems.**

. **The School Problems Commission take necessary steps to review the portfolio management policies and practice of the Downstate and Chicago Teacher pension funds as part of a review of the portfolio management of all State-supported pension funds. It is recommended that this review include the following:**

1. **A historical analysis of the total rate of return from 1966 to present for all State-supported pension funds. We recommend the total rate of return approach. This approach will permit, for the first time, a valid comparison of the portfolio management performance of these different funds.**
2. **A continuing review of portfolio management performance. Such a review would require that all funds report portfolio management transactions yearly to the State in a format designed by the State.**

. **It is recommended also that these powers of review be delegated by the State through legislative amendment and/or executive action to the proper agency or agencies.**

. **It is further recommended that if the results obtained from the historical study and/or from the new data provided in future years demonstrate that the portfolio management of either fund is not acceptable, consideration should be given to placing the management of that fund in other hands, such as the State Investment Board.**

With regard to mandatory retirement, we recommend that:

State action on mandatory retirement not be taken. The Public School Code requires the elimination of tenure for teachers over 65 and enables local school districts to deal with retirement by yearly reviewing the performance of teachers over 65 and making the decision to retain or discharge them.

With regard to the general question of the funding of retirement systems and the particular question of placing teachers on Social Security, we find the issues to be beyond our capabilities for definite recommendations. However, we recommend that:

- **Teachers be informed about the benefits of Social Security, particularly the professional mobility that it affords them.**
- **A careful study be made of the long-range costs of Social Security and the current retirement systems.**
- **Immediate action be taken by the Governor and the Bureau of the Budget to review all State employees' retirement systems and to design a sound, equitable, and consistent basis for their funding.**

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* See comment by Robert J. R. Follett, p. 166

Memoranda Comments, Reservations or Dissent

MEMORANDA OF COMMENT, RESERVATION, OR DISSENT

—Bishop William E. McManus

Because a period of two working days, the time allotted for my study of the final report before it was sent to the printer, did not allow me sufficient time to review it with consultants whose expertise I need and respect, I must reserve the right later on to dissent publicly, if necessary or advisable, from any recommendation with which I cannot agree after adequate study of the full report.

I take this position not to criticize the staff, which worked under unexpectedly difficult pressure after the November elections, but only to avoid the embarrassment of endorsing far-reaching recommendations, some of which I do not fully understand at present.

Page 8 —Donald F. Eslick

The paragraph beginning on line 22, page 8 of the Report unfortunately understates the potentiality of school district reorganization as a partial solution of the present fiscal inequities among school districts as well as contributing to greater accessibility to better educational opportunities for many of the State's school children. I believe that the Task Force was generally sympathetic to this approach, but avoided it primarily because of the activities of another Task Force of the Governor's Commission on Schools.

Page 8 —Robert J. R. Follett

The General Assembly should act directly on district organization rather than indirectly through financial incentives. Direct action will encourage straightforward consideration of the issues. The important issues involve the relative efficiency and effectiveness of very small and very large districts as well as of dual and unit districts.

Page 24 —Bishop William E. McManus

I suggest that a substantial part of the proposed $1 million investment for testing be used to ascertain why a number of non-public schools in Illinois are able to provide educational programs, which compare favorably with those in adjacent public schools, at a cost substantially less than the costs in the public schools.

Page 42 —Donald F. Eslick

I strongly support the comments in the third and fourth paragraphs starting on line 24, page 42, of the Report regarding the inelasticity of the present school finance system and its effects upon our educational system. I would further point out that research done for the Task Force on the inelasticity of the Illinois property tax system indicates the magnitude of this disadvantage when compared to our other major taxes. These estimates indicated that property taxes automatically increase at a rate less than two-thirds of the sales tax rate and less than one-half the automatic rate of expansion of the personal or corporate State income tax.

The heavy reliance of the schools upon this most inelastic tax, in conjunction with the stringent referendum requirements imposed on school taxes has, I believe, been primarily responsible for the present school finance crisis in Illinois.

Page 47 —Robert J. R. Follett

Despite the problems noted with the lottery I believe it deserves further consideration.

(Concurring — Dr. Leo Cohen)

Page 55—Leonard Gardner

I have no objection to this exception. However, it would appear that it would be fair to reduce school district extensions as enrollments decrease.

I have no objection to this use of a circuit breaker. However, this does not relieve the burden of the property tax on many who find it onerous—the small businessman and the family farmer, both of whom must have a large amount of property for their livelihood and both of whom have found the payment of property taxes to require an inordinant portion of their income. The circuit breaker should be available to others who find their property tax exceeds a specified percentage of their income.

Page 69—Robert J. R. Follett

Reporting by attendance center, along with state-wide assessment and evaluation, are indispensable in providing information needed for educational improvement. These two items should be implemented immediately.

Page 73—Leonard Gardner

The three alternative formulas incorporate several interesting theories. However, they are seriously lacking in refinement. In several cases the formulas do not provide meaningful property tax relief but would intensify the property tax burden for large numbers of property taxpayers. These formulas are not acceptable in their present form but can only be useful as a starting place for discussion of this complex subject.

(Concurring—Norman J. Beatty)

Page 78—Robert J. R. Follett

Since experimentation in education involves the future of our children, great caution is necessary with large scale or radical experiments. Low risk small scale experimentation is more feasible. Every effort should be made to improve education through such experimentation.

Page 153–Robert J. R. Follett

If teachers salaries are permitted to continue to rise at the same pace as they have recently, and if class size continues to be reduced, no reasonable taxation program can hope to succeed in meeting the financial demands of schools. Either the cost per unit of output must be stabilized by cutting back salary increases and class size reductions, or else different means of organizing the educational process must be found. Both of these alternatives should be pursued.

Page 160–Robert J. R. Follett

I would recommend consideration of lowering the elimination of tenure from age 65 to some other age, perhaps 60 or 62. This need not require retirement at that time but should promote better personnel practices.

Page 4 —Donald F. Eslick

We dissent from the Section entitled "The Mandate of the 1970 Constitution" beginning with line 7 , page 4 .

In this section of the Report, the Task Force presumes a function which rightfully belongs only to the courts—interpretation of the constitutional provision that "The State has the primary responsibility for financing the system of public education." While certain meanings of this provision can be inferred from the transcripts of the Sixth Illinois

Constitutional Convention, the final interpretation must be given by the courts. Judicial interpretation of this provision may, but does not have to, involve consideration of the debates and proceedings of the Constitutional Convention.

> "References to the proceedings of a constitutional convention are sometimes resorted to by the courts in order to find reasons for a particular action of the convention. Where inquiry is directed to ascertain the purpose sought to be accomplished by a particular provision it may be proper to examine the proceedings of the convention which framed the instrument. Where the proceedings clearly point out the purpose of the provision, the aid will be valuable and satisfactory."[1]

However, Constitution Convention debates will not be considered in construing a provision of the Constitution where the language used is clear and unambiguous.[2] And, the intent and meaning of the Constitution are to be determined from the language used, as commonly understood.[3] Hence where the language used is clear, courts will not resort to debates or go beyond the instrument regardless of what the actual intent of the framers may have been.

Beginning on Page 4 of the Report, several comments from the Convention's transcript appear as bases for conclusions which only the courts should draw. While the facts and explanations presented are valid, they are incomplete in terms of what actually transpired. If the Task Force wishes to include in its Report the assumed bases of future court decisions, it should provide a more complete frame of reference.

My concern begins with lines 31 of page 4 which state:

> "The Convention rejected a proposal which would have required the State to finance 90 percent of the cost of elementary and secondary education."

The motion recommending this percentage of state funding was made on

the floor of the Convention by Mr. Parker, a member of the Education Committee, in dissenting from the majority recommendation.[4] The Report does not relate that the majority of the Education Committee recommended that "the state provide substantially all the operating cost of the local schools."[5] Nor does the Report indicate that the Convention was also considering total education costs.

A related provision included in the majority recommendations of the Education Committee held that local spending be limited to 10 percent of total costs.[6] The transcript indicates that the delegates disagreed with the inclusion of specific percentages in the Constitution.[7]

The following sentence in the Report (line 33) reads:

> "Moreover, the Convention turned down a proposed constitutional provision which stipulated that funds raised locally for the common schools should not exceed 50 percent of the total school expenditures.

It should be noted by italics that the 50 percent refers to "total school expenditure."[8] This proposed provision was recommended by a dissenting Education Committee member, Mr. Bottino, to, in his words, "help accelerate the trend toward lightening the burden on property which bears the greater portion of school and local tax support."[9]

Lines 5 and 6, page 5, of the Report state: "From these debates, it is clear that the purpose of the delegates was primary hortatory . . ." This is a conclusion which cannot justifiably be drawn. The transcript indicates that the Convention devoted a good deal of time to discussion of the type of statement which should be written into the new Constitution.[10] In this discussion, it is clearly stated that the Convention delegates did not wish to legislate. For this reason they avoided the use of specific percentages such as those referred to on page 4, line 28, of the Task Force Report. Nor did they wish to be completely hortatory. Instead, the convention delegates stated their intent to provide a statement of commitment and purpose.[11]

The concern of the hortatory statements, according to the Convention transcript, relates to full-state funding. The delegates indicated in their discussions that any provision calling for full-state funding would be idealistic, impractical and thus hortatory.[12]

It is clear from the discussion contained in the transcript that far from being hortatory, the Convention's use of the term "primary responsibility" was based on what it considered desirable objectives.[13] The objectives were unanimously agreed to by the Education Committee and endorsed by the Convention. The objectives are: 1) reduction of the reliance on the property tax; 2) guarantee of equality of educational opportunity (financial); and 3) preservation of local control.[14]

The Convention defined "primary responsibility" in terms of shifting, to the State, the major burden of financing public education.[15] In so doing, the delegates rejected the position that "primary responsibility" referred to the first responsibility among many.[16]

Line 20 on page 4 of the Report tend to confuse the constitutional provision of an efficient system of public education with that of primary responsibility for financing same. While the Constitution of the State of Illinois does state that: "The State shall provide for an efficient system of high quality educational institutions and services." (Article X, Section 1), this should not be confused with the subsequent, but distinct, provision that the State assume primary responsibility for financing public education.

An efficient system of public education is achieved by structuring the organizational, administrative, and financial arrangements of the system in order to advance the aims of all the elements of the system. It is clear from the transcript that the primary financial responsibility of the State is the obligation to raise "the basic", "the majority", "the substantial share of" revenues and distribute them equitably. The foregoing demonstrates that the interpretation presented in the Task Force Report is misleading and possibly incorrect. At any rate, the final decision must ultimately be delivered by the Courts.

(Concurring—Dr. G. Alan Hickrod, Leonard Gardner, William P. Cote)

Page 54 —Donald F. Eslick

The recommendation on lines 10 and 11 on page 54 of the Report rejects the use of the following taxes for raising additional funds for education: commodity tax, a lottery tax, a value added tax, a statewide property tax, and a local income tax. We support this recommendation as it relates to the immediate future, but would not like to see the recommendation applied indefinitely.

We dissent from the recommendation on lines 12 and 13, page 54, inasmuch as we believe that an increase in the sales tax from the present five cents to six cents in conjunction with the elimination of this tax on food and medicine is preferable to the present situation. This change would substantially reduce the regressivity of the sales tax, while changing sales tax revenues only slightly.

(Concurring—G. Alan Hickrod, Ben Hubbard, William P. Cote)

Page 54 —Dr. Leo Cohen

We dissent from the recommendation for a property tax freeze on page 54 on the grounds that such a procedure does not provide property tax relief where it is most needed. We believe that the "circuit breaker" idea mentioned on page 55 and alternatives 2 and 3 of the formula proposals on page 74 and 75 would provide a more discriminating form of relief to both high tax effort districts and to tax-burdened, low-income families.

(Concurring—G. Alan Hickrod)

Page 58 —Dr. Leo Cohen

It is my conviction that greater progress toward the goal of providing property tax equity within this class or types of real property, as well as between all classes, may be achieved if this recommendation provided for State assessment rather than passive assistance. This is of special concern

when one notes that the possibility of a State real property tax was discussed on somewhat weak arguments (p. 49);little consideration was given for a State real property tax on only industrial and commercial property; and finally, in this section, we find the unwillingness to recommend that the State assess public utility industry, and other difficult to value properties.

Page 65 —Dr. G. Alan Hickrod

"Because we believe education should be the number one priority for Illinois government and we believe that such a priority would at least commit the revenue described in Table 9 , Page 53 , we cannot accept the suggestion that it is "unlikely that additional funds in the amounts projected in Table 9 will be available exclusively for educational expenditures in the foreseeable future" or that the only funds available to support education will be the amount currently available. We note that alternative formulas number 2 and number 3 do call for additional funds for education as indicated on Table 11, page 76, and we support increases of this nature."

(Concurring: Ben C. Hubbard, Donald F. Eslick, Ivan A. Baker, Robert Stickles, Olin W. Stratton, Mrs. Thomas J. Hurst, and William P. Cote)

Page 65 —Leonard Gardner

In view of the provision of the 1970 Illinois Constitution placing primary responsibility for financing public education on the State, I cannot accept this statement.

Page 67 —Olin Stratton

In the three tier formula on page 67 I am opposed to the language describing tier one. This says that the grant will be given to all students rather than to the school district in which they reside. This would cause many problems in administration, would hamper local control, and would be the beginning of the erosion of our tax dollar from the public school to other agencies.

Page 68—Donald F. Eslick

We believe that the $1,000 per pupil expenditure level indicated on line 15, page 68, is presently inadequate to provide a satisfactory education, although it is approximately equal to the present average operating cost per pupil for the State. It should be recognized that this average is substantially lowered by the large number of students attending schools in districts which, under the present finance system, have very limited access to resources and, therefore, spend inadequate amounts for education. As a consequence, we would urge a target per pupil expenditure substantially greater than the present average.

(Concurring: G. Alan Hickrod, Ben Hubbard, William P. Cote)

Page 73—Robert Stickles

I disagree with this compromise. Average Daily Membership should be used because Average Daily Membership provides the basis for estimating a district's resource requirements including teachers, supplies and space. Furthermore, the use of attendance rather than membership figures places urban schools at a disadvantage because the problem of truancy is primarily an urban problem.

Page 73 –Charles Hindersman

I prefer the use of Average Daily Attendance for all K-12. I object to the recommendation of using Average Daily Membership in the formula. The objective of this recommendation would be achieved through the 1.25 weighting for disadvantaged students. The adoption of ADM in the formula coupled with the increased weighting for disadvantaged students would provide for too great a proportion of total state resources being distributed to the urban schools at the expense of the remaining school districts of the state.

Page 78 –William P. Cote

I agree that large scale, controlled experimentation over a substantial period of time is needed to provide better information for decision-making. However, the only specific proposed experiment suggested by the Task Force does not appear likely to be very helpful in the educational decision-making process. Therefore, I suggest that there are many other potential experimental designs which should be seriously considered before funds are diverted to this kind of novel funding.

Page 90 –Norman J. Beatty

I object to the treatment of "Municipal Overburden" on page 90. Although this discussion is not an official "Conclusion and recommendation" I feel that it is not a balanced treatment and that it reflects judgments and biases (presumably those of the Task Force) which I do not share.

I feel that it is desirable to know more about municipal overburden and how or whether it should be rejected in the financing of schools. But after such terms as "oversimplified and conceptually ill founded" I feel that the first paragraph on page 90 is appalling.

In the context in which it appears it seems to imply that the sole problem in property tax burdens is their direct effect on individuals, and almost exclusively one of housing costs, and that there should be no concern if their effect through taxes on business and industry is to preclude the creation of job opportunity in central cities.

Further, I agree that the study of rental property is desirable, but I would suggest that the fact that a large portion of taxes are for non-educational purposes considered in conjunction with higher effective tax rates and the abandonment of sound residential structures that cannot support current tax payments, all indicate the need for a much different emphasis in the treatment of municipal overburden.

The entire discussion seems to me to be insensitive to the problems of the City of Chicago and to fail to recognize that central cities require more expensive non-educational services and that they currently provide services to entire metropolitan areas which must be financed from their own tax resources.

(Concurring with the first 2 paragraphs only: Mrs. Thomas L. Hurst)

Page 111 —Norman J. Beatty

I disagree with the conclusions and recommendations on financing school construction (p. 111). Although I strongly support the substitution of other sources of funds for the present excessive reliance on local property taxes to fund public school costs, and I recognize that construction costs are a very substantial part of these costs, I feel that other forms of state aid can better accomplish these purposes. My chief objections are:

1) Expenditures of this kind are more apt to disrupt the delicate

balance between state and local control of education and lead to an unreasonable state interference with local discretion.

2) By taking into account only bond financing, this plan would effectively preclude other methods of local financing of school construction.
3) By providing a limited annual appropriation, the State would have to establish priorities and in effect dictate where and when local construction would take place.
4) Financing the state's participation through the issuance of bonds is a major misuse of the state's bonding power.

Throughout this report, the Task Force has recognized the difficulties in establishing an appropriate relationship between State and local school authorities. See for example "Issues Underlying the Reform of School Finance" on page 3 and 4 . The Task Force proposal would give the state final decision as to where, when and whether schools would be constructed as well as the type and cost of the construction involved. This seriously upsets the state- local balance.

I believe that the use of bonding authority can be justified for large and unusual expenditures. If, for example, a major highway construction program needs to be completed in five years and paid for over 20 years, then an argument can be made for bond financing. If, however, a regular expenditure is to be repeated each year, (in this case $100 million) the only justification for use of bonds is to require some future administration to pay the piper. In addition, bond funds in this case would be used, in part, to pay interest costs of local government. This would be then the issuance of long-term state bonds to pay current expenses of local governments.

Page 153–William P. Cote

I take exception to the conclusions regarding teacher compensation. Statements to the effect that teacher compensation has reached substantial parity to those in comparable occupations is based upon the assumptions of comparability and selected data which I reject. The area of "comparability" is much too complex to make simple assumptions of comparability.

Any conclusions based upon such tenuous, unreliable assumptions are then of questionable validity and reliability. Teachers in the State of Illinois will quickly question the value of a report which makes statements about teachers' salaries which are at such variance with their personal experience.

Teachers' salaries and other matters affecting them will be best resolved by collective bargaining with their employers. Adequate legislation to guarantee public employees the right to bargain collectively should be a top priority item. Evidences of comparability, pro and con, can them be used and evaluated during the bargaining process.

Olin Stratton

The background material is put together in a way which does not convey the feeling we share about public education and contains ideas not discussed in detail by the Task Force. The educational research used is largely negative in nature. There is much research available that shows that schools are doing many things well. When we look at our country, our people, our homes, our highways, our scientific achievements such as the Apollo program, our efforts in national defense that have kept this nation free, and our willingness to help others, we see that a good part of this achievement is due to the most outstanding system of public education the world has ever known. Let us not hide our problems but let us tell it like it is. There is no better way to motivate and improve a system than to give credit for things that are done well.

(Concurring–Ben Hubbard)

ENDNOTES

1 *Wulff* v. *Aldrich*, 124 Ill. 591 (1888), Cooley, Const. Lim. 63.

2 *People* v. *Emerson*, 302 Ill. 300 (1922).

3 *Graham* v. *Dye*, 308 Ill. 283 (1922).

4 Record of Proceedings, Sixth Illinois Constitutional Convention, Verbatim Transcripts – December 8, 1969-September 3, 1970, p. 3547.

5 Ibid., p. 3538

6 Ibid.

7 Ibid. pp. 3536-3567

8 Ibid. p. 3550

9 Ibid.

10 Ibid. pp. 4145-4148

11 Ibid. p. 4145

12 Ibid. p. 3537

13 Ibid.

14 Ibid.

15 Ibid. p. 4145

16 Ibid. p. 4147

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